

**Analysis of the  
Financial Feasibility  
of the  
Proposed City of Sammamish**

**for  
Washington State Boundary Review Board  
for King County**

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Norton Arnold Janeway

**June 6, 1998**

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## EXECUTIVE SUMMARY

### DOES THE PROPOSED INCORPORATION OF THE SAMMAMISH PLATEAU APPEAR FINANCIALLY FEASIBLE?

Yes. Assuming existing tax rates, the revenues of the proposed City of Sammamish are sufficient to pay for the current levels of service provided by King County with money left over for additional services or investments in public facilities.

Although the proposed City is primarily residential with a weak commercial tax base, the combination of high residential property values and the modest level of existing public services makes the proposed city financially feasible. The City<sup>1</sup> is fiscally sound over a wide range of reasonable assumptions about future growth and tax revenues. Under the most conservative assumptions about future revenues and costs, the proposed City could provide public services at levels that are equivalent to or higher than those now provided by King County

### WHAT ARE THE KEY FACTORS AFFECTING FEASIBILITY?

Suburban municipalities typically rely on four major sources of funding: property taxes, sales taxes, state shared revenues, and fees for services. In the case of Sammamish, elements of each these revenue sources contribute to the City's feasibility:

- **Per capita property values are high.** The City of Sammamish has nearly \$100,000 of assessed value of property per person. This amount is above the countywide average of \$82,000 and very close to that of the neighboring cities of Issaquah and Redmond. While Sammamish lacks commercial and industrial properties, the high value of residential housing boosts the per capita property values above the county average.
- **The State of Washington provides extra money to cities with below average retail sales tax revenues.** The State of Washington funds a

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<sup>1</sup> In this report we have adopted the convention of capitalizing the word City to indicate the proposed governmental entity that would be known as the City of Sammamish. When referring to the geographic area rather than the governmental entity we use the terms city, Sammamish, and the plateau interchangeably. For simplicity's sake, we also do not always include the modifier "proposed" when referring to the City. The reader should not interpret this convenience as somehow predetermining the outcome of the election in November 1998. The decision as to whether the proposed City becomes the actual City rests firmly in the hands of the voters living in Sammamish.

sales tax equalization program that provides revenue to cities whose per capita sales tax collections fall below the state average. Although Sammamish is rich in property values, it is poor in its retail sales tax base. Under the current funding formulas, the City would receive over \$2 million in sales tax equalization payments in 2000 which is approximately 15% of the projected budget for that year.

- **Sammamish would have enough people to receive significant amounts of state shared revenues.** Washington cities receive distributions from the state based on their population. With a 1997 population of 26,200 and a projected growth rate of 6%, Sammamish would receive \$1.4 million in 2000 in state shared revenues.
- **Rapid growth on the plateau generates one-time revenues that strengthen the City's near-term fiscal position.** The continuing boom in construction on the plateau generates fee revenues to permitting agencies, sales tax revenues on construction, and Real Estate Excise Tax revenues on home sales. In the year 2000, sales tax and Real Estate Excise Tax on new construction alone will generate over \$1.7 million for the City.

Suburban cities can provide a wide range of services including public safety, public works, parks and recreation, planning, and human services. This study assumes that the City of Sammamish would maintain the existing levels of service provided by King County. In key areas such as police, roads, and surface water management, the City would contract for services directly from the County. Over time, the City could choose to stop contracting and provide these services directly. Our assumption about contracting with the County to maintain current service levels yields one more key factor influencing feasibility:

- **The costs to the City of contracting with King County for existing service levels are modest.** The single largest expense category for the new City would be police services. Because of its low crime rate and the type of police services currently provided, the City could contract with the County at a cost per capita that is significantly below other cities. Other contracted services can also be provided at modest cost.

## ACCOUNTING FOR UNCERTAINTY IN FORECASTS

This study projects the finances of the future City of Sammamish over five years. The future is uncertain and many of the key drivers of revenues and expenditures will vary in the future. For this very reason, this analysis explicitly evaluates the uncertainty inherent in the forecasts.

- Under the most pessimistic assumptions about growth and tax revenues, the City of Sammamish would generate sufficient revenues to maintain current service levels. Under the most likely scenario, the City would generate revenues in excess of core expenses of \$5 to \$7 million per year. These revenues would be available to provide additional public services including paying for improved capital facilities such as roads.

The table below shows the range of revenues and core expenditures for the City under four different scenarios. Core expenditures represent the estimated cost to provide current levels of service. Under the Baseline assumptions the City's General Fund would earn \$15.8 million in revenues and incur \$8.5 million in core costs in the year 2003 leaving a remainder of \$7.3 million to pay for additional services. The Low scenario generates revenues minus core expenses of \$4.8 million while the High scenario generates \$9.3 million. The most conservative assumption possible is that Sammamish would have very low growth rates and that an initiative to the voters to repeal the Motor Vehicle Excise Tax passes at the ballot in 1998, which would eliminate sales tax equalization payments and other state shared revenues. Even under this most conservative assumption, the City would earn revenues in excess of core expenses of \$2.1 million.

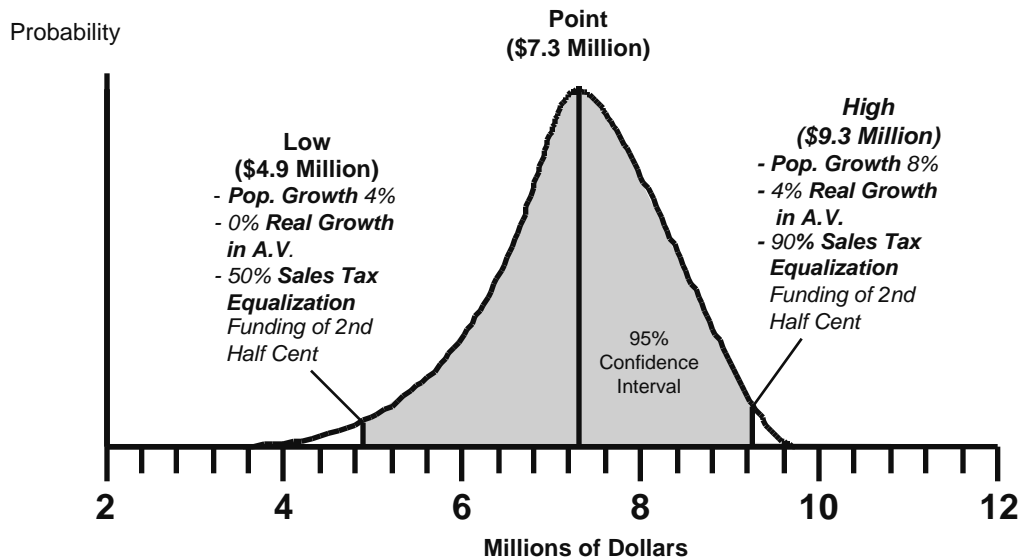
**Table 1 : Year 2003 Revenues and Core Expenses for the City of Sammamish Under Alternative Scenarios**

<i>In Thousands of 1998 Dollars</i>				
	Baseline	Low	Low without MVET	High
<b>General Fund Revenues</b>	<b>15,799</b>	<b>12,940</b>	<b>10,200</b>	<b>18,038</b>
<b>Core Expenses</b>	<b>8,474</b>	<b>8,081</b>	<b>8,081</b>	<b>8,786</b>
<b><i>Revenues minus Core Expenses</i></b>	<b><i>7,325</i></b>	<b><i>4,859</i></b>	<b><i>2,119</i></b>	<b><i>9,252</i></b>

The bell shaped figure on the following page presents another way of looking at the potential range in the City's financial cushion. The figure shows a probability distribution indicating that the most likely result is around \$7 million but that the potential range is from \$4 to \$10 million. As one moves above or below \$7.3 million the probability of that outcome decreases. There is a very low probability that revenue less core expenses would fall below \$4.9 million.

The figure also shows the key variables that contribute to the variation in revenues: population growth, growth in assessed value, and the amount of sales tax equalization.

**Figure 1: Probability Distribution of Year 2003 General Fund Revenues minus Core Expenses (In millions of 1998 Dollars)**



## WHAT ARE THE LIMITATIONS OF THIS ANALYSIS?

- **This study is not a blueprint for how to run the City of Sammamish.** This study only addresses the issue of financial feasibility. It analyzes a reasonable range of assumptions about revenues and expenses and concludes that the City would earn enough revenue to pay for its core expenses with money left over. If the voters choose to incorporate, they will elect a City Council that will have to make many decisions that will influence the actual revenues and expenses of the City. Nothing presented in this document should in any way be interpreted as binding on a future Council. The elected officials in many newly incorporated cities choose to provide additional types and levels of public services to their citizens. The City Council of Sammamish may choose to raise taxes and service levels, keep them the same, or lower them.
- **Projections of revenues and expenses are estimates; readers should not attach undue significance to individual numbers.** Any particular number in this analysis, such as the amount of sales tax equalization the City will receive in 2002, will almost certainly differ from the actual number in that year should the incorporation occur. However, while any specific number will be off, the overall findings are correct. The analysis builds an estimate of total revenues by making estimates for each revenue source. Our goal is to reach an estimate of total revenues by making all of the assumptions explicit.

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# 1. INTRODUCTION AND REPORT ORGANIZATION

For over a decade, citizens in the unincorporated area east of Lake Sammamish have debated the merits of forming their own city. In 1992, voters on the Sammamish Plateau rejected a proposal to create a new city. In late 1996, advocates of incorporation began a new petition drive for the incorporation of a smaller area than that proposed in 1992. In April of 1997, the Sammamish Incorporation Neighborhood Group (SING) submitted a Notice of Intention to the Boundary Review Board of King County. At the request of SING, the King County Council appropriated money to conduct a study of the financial feasibility of the proposed City under the direction of the Boundary Review Board. At the same time, the County Council funded a parallel study to analyze the annexation of the potential incorporation area by the cities of Redmond and Issaquah.

In December 1997, the Boundary Review Board hired a consultant team led by ECONorthwest to conduct this study of incorporation to inform voters for an election schedule for November of 1998. ECONorthwest is teamed with Nesbitt Planning and Management and Norton Arnold Janeway to conduct this study of the financial feasibility of the proposed City of Sammamish. We address ourselves to one important question a voter might have about the proposed city: "Is the proposed city financially feasible?" To this question we answer, "Yes" and on the following pages provide lots of information about prospective revenues and expenditures.

There are many other important questions about incorporation which this study cannot answer. Voters will want to know, "Will my taxes go up or down?", "Will the City provide better, more responsive services than King County?", and "Will the City slow development on the plateau?". The answer to these questions depends on who is elected to the new City Council and whom they hire to run the City. This study is not a blueprint for how to run the City. If Sammamish votes for incorporation, decisions about taxes, service levels, and capital investments will be made by seven citizens elected from the roughly 27,000 people who live in the proposed City instead of by the County Council and County staff. This study cannot predict what a new City Council would do. We can describe how much revenue a new City could earn if it maintains current taxing rates and the levels of service it could provide if it does. Voters will need to weigh this information about financial feasibility with their own perceptions about what forms and structures of government can best provide them public services and represent their positions in matters of public policy.

This report begins by reviewing the key assumptions used in the revenue and expense forecast and the basic statistical data describing the proposed incorporation area. It then provides an overview of the revenues and expenses to the City from 1999 through 2003, followed by a brief discussion of the likely effects of potential additions to the area of incorporation. The

next two sections provide details on each source of revenue and category of operating expense for the City. The following two sections address the capital improvement needs of the City and cost of additional services the City may choose to purchase. The last section reviews the start-up financing for the City and shows how the City could meet its cash flow requirements.

## 2. KEY ASSUMPTIONS

The findings of this feasibility analysis depend upon a wide range of assumptions. We have identified most of these assumptions in our descriptions of specific statistical data, revenues, and expenses. There are, however, a few overriding assumptions that apply to all areas of this study, and are therefore key to understanding the implications of our findings. These assumptions are:

- That the official incorporation date for the City of Sammamish, if incorporation is approved by voters, will be August 31, 1999.
- That the organization of the City government will be one of Council/City Manager.
- That the core costs and levels of service of the City of Sammamish will be consistent with costs and levels of service as they currently exist on the plateau. (We refer to this assumption throughout our analysis as a “same cost/same level of service” baseline.)
- That our estimates of revenues and expenses should be conservative. This means that, when in doubt, we have attempted to err on the low side for revenues and on the high side for costs.
- That all revenue and expense estimates are in inflation-adjusted terms. Projected revenues and expenses for all years are represented in today’s dollars.

Projections, by their very nature, carry with them varying amounts of uncertainty. Every projected revenue stream and every cost in this analysis depends to one degree or another on a host of underlying factors whose future values are yet unknown. Therefore, in addition to providing our best estimate of what the finances of the City of Sammamish will look like, we also provide the financial picture given a “reasonable range” of developments. We have explicitly modeled the expected range of variations in parameters that are most crucial to the City’s fiscal health, varying fundamental drivers like projected population, projected taxable assessed value, and sales tax equalization funding levels. Through these drivers, we have indirectly varied practically every cost and revenue estimate in our entire model.

### **3. BASIC STATISTICAL DATA**

#### ***LOCATION OF INCORPORATION AREA***

The proposed incorporation area is located east of Lake Sammamish in King County, Washington. The proposed city sits upon a plateau that rises steeply from the east shore of Lake Sammamish. The eastern edge of the city abuts the Urban Growth Boundary established by King County under the Growth Management Act. The shape of the City is irregular but is approximately six miles wide (in the east-west direction) and six miles long (in the north-south direction) with a total land area of 13,556 acres or approximately 21 square miles. The map on the preceding page shows the location and boundaries of the proposed City and potential addition areas.

#### ***POPULATION***

Perhaps the single most important factor affecting the variability of our financial forecasts for the proposed City of Sammamish is the estimate of population. In any city, many of the major revenue sources as well as a large number of the expenses depend either directly or indirectly on the city's population. Further, in a city that is growing as rapidly as Sammamish, in many instances, the process of growth itself can generate significant amounts of short-term revenues from taxes levied on new construction.

In order for any assessment of feasibility for the proposed City of Sammamish to be truly useful, not only must it examine the most likely scenario, it must also examine a reasonable range of possible developments. In our estimate of population, this means that we need not only derive a best estimate for a rate of population growth, but also a realistic range over which actual growth might vary.

#### **BASE POPULATION**

Our estimates of the base population within the proposed City of Sammamish rely heavily upon demographic work performed by analysts at King County. These estimates begin with the 1990 census data and add housing construction from 1990 through April 1, 1997. From this measure of housing, total population within the area was derived using average household size for the various types of residences (single family, multi-family, and mobile homes) in conjunction with an estimate of what portion of

those total housing units would be expected to be vacant as of April 1. King County estimated average household sizes as 3.09 people per single family unit, 1.98 per mobile home, and 1.8 per multifamily unit. In addition to these figures, the County analysts used an estimated vacancy rate of 6%. In total, the County analysts estimated an April 1, 1997 population of 26,200.

## POPULATION GROWTH RATE

Due to the far-reaching implications of projected population growth of the proposed City of Sammamish, we have focused on developing the best possible estimate for a growth rate applicable to our period of analysis. In addition to establishing a best estimate, we have endeavored to determine a realistic range of possible growth rates to use in our analysis of uncertainty. We began our analysis by looking at both pre-existing forecasts as well as at the area's recent growth history. This information was augmented by a review of the current and projected housing market on the plateau as reflected in applications for building permits.

In 1995, the Puget Sound Regional Council generated forecasts for population growth for the entire Puget Sound area. According to these forecasts, the area that roughly coincides with the proposed City of Sammamish was projected to undergo population growth of 3% to 4% per year throughout the decade of the 1990s. Over the six years between 1990 and 1996, the unincorporated area of East Sammamish has grown at an average annual rate of slightly greater than 4% compounded. Between 1996 and 1997, again, population on the plateau grew at a rate slightly greater than 4%. Were we to rely upon these figures alone, it would be tempting to forecast a similar rate of population growth into the near future. However, when we took a close look at what is currently happening on the plateau, it became apparent that this recent historical rate is almost certainly an understatement of present growth.

In an effort to assess the level of new construction of residential housing over the next five years on the Sammamish Plateau, we enlisted the help of King County's Department of Development and Environmental Services (DDES). DDES provided us with a list of residential building permits currently moving through the system, and with their help we developed an estimate of what percentage of those permits we could expect to be completed and occupied within the six year time frame under consideration. Given the expected building activity and circumstances as they now stand, it is entirely possible that population growth within the area of proposed incorporation could, on average, exceed a compound rate of 7% per year for the next six years.

For the purposes of our analysis, we have chosen to present annual population growth in terms of a percentage of the base year. In other words,

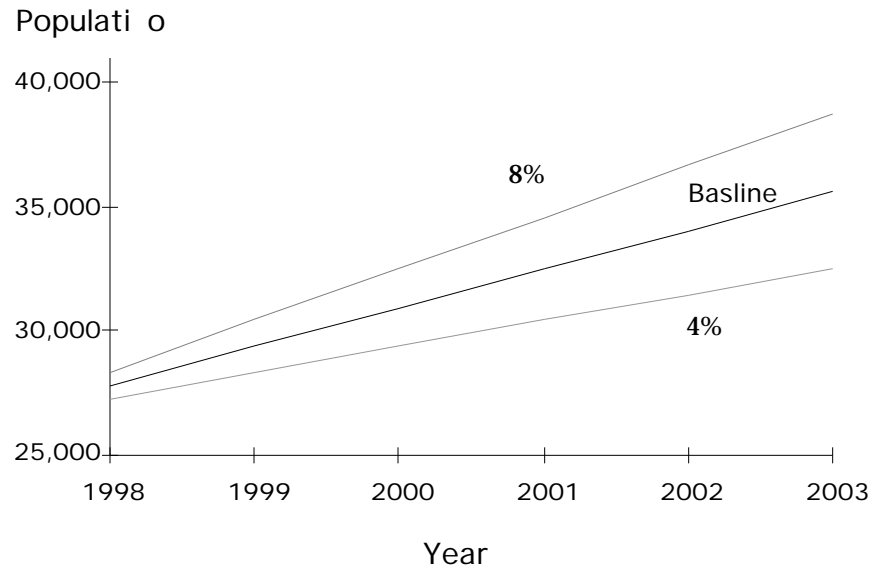
we have assumed that population will grow by the same number each year. Over our six year period of analysis, the 7% compound growth rate mentioned above would be slightly *greater* than a fixed number growth rate of 8% of the base year population. (As an illustration, for a city starting with a population of 1,000, growth of 8% of the base would translate to 80 new people added each year. Over six years, then, the city would have added 480 new people. If the city grew at a compound rate of 7%, however, after six years, the city would have added more than 500 new people.)

After looking over all of the available data, we have chosen a “best estimate” population growth rate of 6% of base year 1997. (This is equal to slightly less than a 5.4% compounded rate.) This rate is slightly higher than the growth experienced on the plateau during the recent past, but is significantly below the level that could be expected given the current level of construction activity. In our view, this rate represents an appropriately conservative assumption that will provide readers of this study with the most realistic view of how a City of Sammamish will look over the next five years.

There are, of course, plausible scenarios under which the actual population growth could be either higher or lower than our expected 6%. Accordingly, in our uncertainty analysis we have examined fiscal feasibility in the event of growth rates as low as 4% and as high as 8%. (These translate to compounded rates of roughly 3.7% and 7%, respectively.) Given the new development already in the pipeline, the state of the current housing market, and the economic fundamentals of the Puget Sound region, it is difficult to construct a scenario under which population growth over the next five years would actually be lower than our low estimate of 4%. As for the high end, it is clear that, from a financial feasibility standpoint, annual population growth of 8% already represents a rosy scenario, and the possibility that this rate may be surpassed has little bearing on baseline projections of feasibility. The following table and chart reflect projected population for the proposed City of Sammamish given the parameters outlined above.

**Table 2: Baseline Population Forecast for City of Sammamish**

	1998	1999	2000	2001	2002	2003
<b>Population</b>	27,772	29,344	30,916	32,488	34,060	35,632

**Figure 2: Population Growth Scenarios for City of Sammamish**

## ***ASSESSED VALUE OF PROPERTY***

Having established our estimates of population, the next important driver of revenue for a residential city like Sammamish is the assessed value (AV) of the taxable property lying within the city's boundaries. It is the assessed value of the City of Sammamish that will provide the basis for all property taxes.

The value of taxable property for base year 1997 has been supplied to us by the King County Assessor's Office. Working from their detailed database and an electronic map of the City's boundary, the analysts at the County generated estimates of the value of both taxable and tax-exempt property within the proposed City.

Based on the information provided by King County Assessor's Office, the 1997 total assessed property of the proposed City of Sammamish is \$2,772,542,000.

As we will discuss in more detail in our analysis of Property Tax Revenues, a certain portion of the roughly \$2.8 billion total assessed value above is granted tax-exempt status. Again, according to data provided by the

Office of Assessments, we have determined the value of these exempt properties to be roughly \$129 million.

Therefore, the 1997 total assessed value of taxable property within the boundaries of the proposed City of Sammamish is \$2,643,769,000.

## PROJECTED GROWTH IN ASSESSED VALUE

While the taxable assessed value described above provides a base on which to begin assessing the fiscal viability of the proposed City, it is clear that in an area growing as rapidly as the Sammamish Plateau, this value is certain to increase over time. In general, two factors will determine growth in the taxable property of the city: 1) the increase in the value of the property associated with existing structures, and 2) the amount of new development over the period. Given the current and projected conditions of the housing market on the Sammamish Plateau, we believe that each of these forces will lead to significant increases in the City's total assessed value over the five-year horizon of our study. As with projections of population, however, we also examine the consequences of potential variation in future assessed value.

The current trends in housing prices in the Puget Sound region make it clear that, even on an inflation-adjusted basis, we can expect house values to continue to rise. According to both "The Puget Sound Economic Forecaster" and "The Wall Street Journal," the average house price in the Puget Sound region has risen at an average rate of 6.9 percent per year over the past ten years. In inflation-adjusted terms, this translates to an annual growth rate of between 4 and 5 percent. Given the current conditions of the market, we believe that strong growth in housing values should continue through the near future, although probably at a more moderate pace than has been our recent experience. (It is important to remember that the average price of a house in the Seattle area is now considerably higher than the national average. Hence, it is unlikely that growth rates at the levels of the past ten years will continue indefinitely.) Our best estimate of growth in housing values over the near term is an inflation-adjusted rate of 3 percent. To compliment this best estimate, in our uncertainty analysis we have examined the effects of growth rates ranging from a low of 0 percent to a high of 4 percent. The range is skewed toward the low end to insure that we are conservative in our forecast of future assessed value.

For increases in assessed value coming from new development, we have tied our growth rate directly to our projected growth of population. To gauge the market conditions for new housing on the plateau, we spoke with both consultants and contractors familiar with the area. From these conversations we derived, first, the average sales price of new housing per new person on the plateau, and second, an estimate of the average increase

in assessed value generated by that sale. From these figures, ultimately, we generated an average increase in assessed value per new individual on the plateau. (When readers recall that some new families will be moving into single family housing and others into multifamily, they may find it hard to believe that we can apply a single average sales price to every new person on the plateau. As it turns out, however, for both single family housing and multifamily, the ratios of average sales price to average household size are very close to being the same.) For each new household, whether they are moving into single family housing or multifamily, the average price of that housing per individual is approximately \$108,000. Of this total price, approximately \$81,000 represents new assessed value added to the property. This \$81,000, then, is the average increase in assessed value per new individual. To generate total expected growth in assessed value from new population, therefore, we simply applied the above per capita figure to our population growth estimates.

In the end, our forecast for taxable assessed value of property within the proposed City of Sammamish is as follows:

**Table 3: Taxable Assessed Value Forecast for City of Sammamish**

<i>Taxable Assessed Value</i>					
1997	1998	1999	2000	2001	2002
2,643,769,000	2,856,521,000	3,079,600,000	3,313,432,000	3,558,463,000	3,815,153,000

## CURRENT RATE OF TAXATION

Every piece of non-exempt real property within the proposed City of Sammamish currently pays property taxes according to a levy rate applied to every \$1,000 of assessed value. This total levy rate is composed of number of elements, ranging from state taxes, to county taxes, to local school and fire district taxes. Consequently, there is no *one* property tax rate paid by all projected residents of the new city. Below, we provide a breakdown of the current rates for one such levy area. Tax rates for hospital, fire, and schools vary within the incorporation area. The remaining levy rates are consistent for all property owners within the incorporation boundaries. These common elements appear in bold-faced type.

**Table 4: Sample Levy Rates in Sammamish**

	1998 Rate per \$1,000 of assessed value
<b>King County Levy</b>	<b>\$1.85</b>
<b>Port Levy</b>	<b>\$0.26</b>
<b>State School Fund</b>	<b>\$3.51</b>
<b>King County Library District</b>	<b>\$0.60</b>
<b>County Road District Fund</b>	<b>\$1.74</b>
Emergency Medical Services	-
Hospital	\$0.43
Fire	\$1.40
School Levy	\$3.52
<b>Total</b>	<b>\$13.31</b>

**Levies in Bold Type Apply Across Entire**

Of all the levies currently paid by residents of the plateau, the only property tax element that will cease upon incorporation is the \$1.74 levy for the King County Road District Fund. This tax will be replaced by a new City levy. As we outline later in our section on Property Taxes, we project the 1999 KC Road District levy to be \$1.76 per \$1,000 of taxable assessed value, and the City levy to be limited by law to a “regular” rate of \$1.60 per \$1,000. Therefore, citizens of the new City of Sammamish will be paying slightly lower property taxes than they would if the area remained unincorporated. (As is also discussed in the examination of property taxes, in order to remain consistent in our “same cost/same level of service” analysis, we assume that this difference in property taxes will be exactly “made up” through a new utility tax.)

## 4. OVERVIEW OF REVENUES AND EXPENSES

In this chapter we review the overall picture of revenues and expenses for the proposed City between 1999 and 2003. Chapter 5 provides a detailed discussion of each revenue source and Chapter 6 details the expense categories. The table below summarizes the revenues and core expenditures for the proposed City under our baseline assumptions. Core expenditures represent the estimated cost to provide current levels of service.

**Table 5: Baseline Forecast of Revenues and Core Expenses for City of Sammamish**

<i>Projected Revenues (General Fund)</i>		<i>Thousands of 1998 Dollars</i>				
	1999	2000	2001	2002	2003	
Property Tax - Regular	0	4,730	5,195	5,637	6,043	
County Road Tax	2,313	0	0	0	0	
Retail Sales Tax From Businesses	34	216	229	243	258	
Retail Sales Tax From New Constructio	135	808	808	808	808	
Sales Tax Equalization	0	2,094	2,238	2,381	2,523	
Sales Tax - Criminal Justice	165	520	547	573	600	
State Shared Revenues	431	1,359	1,428	1,497	1,566	
State Shared (by Application)	0	130	136	143	149	
REET From Re-sale of Existing Proper	239	770	828	890	954	
REET From New Construction	302	930	958	986	1,016	
Fines and Forfeits	24	151	158	166	174	
Utility Tax	0	493	530	569	610	
King County Vehicle License Fee	99	313	329	345	361	
Cable TV Franchise Fees	51	212	223	234	245	
SWM Transfer for Roads	60	380	399	419	440	
Community Dev. Block Grants	0	0	53	53	53	
Total	3,853	13,105	14,059	14,943	15,799	
<i>Projected Expenses (General Fund)</i>						
	1999	2000	2001	2002	2003	
General Administration	691	2,399	2,746	2,815	2,885	
City Attorney and Prosecution Service	60	200	200	200	200	
Public Safety	404	2,474	2,600	2,726	2,851	
Roads Operation and Maintenance	205	1,286	1,350	1,417	1,488	
Parks and Recreation	0	62	131	206	216	
Comprehensive Land Use Plan	0	200	200	25	25	
Capital Facilities Plan	0	100	200	0	0	
Human Services	0	309	325	341	356	
Miscellaneous Non-Departmental	42	126	126	126	126	
Operational Contingency	150	150	150	150	150	
Reserve Fund	0	175	175	175	175	
Total	1,552	7,480	8,203	8,180	8,474	
<i>Revenues Minus Core Expenses</i>	2,301	5,625	5,857	6,763	7,325	

<b><i>Surface Water Management</i></b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b><i>Total Revenues</i></b>	<b>237</b>	<b>992</b>	<b>1,032</b>	<b>1,073</b>	<b>1,201</b>
<b><i>Expenditures</i></b>					
SWM Transfers to Roads Op. and Maint.	60	380	399	419	440
SWM Operations	110	343	357	371	386
SWM Watershed Based Services	55	164	164	164	164
SWM Available for Capital Expenditures	11	105	112	119	212
<b><i>Land Use</i></b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b><i>Building Permit Revenue</i></b>	<b>334</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b><i>Expenditures</i></b>					
Department of Planning and Building	334	1,000	1,000	1,000	1,000

Revenues would grow from \$3.9 million during the four months the City will operate in 1999 to almost \$16 million in 2003. Almost 40% of the City's revenue in 2003 will come from property taxes. The next most important revenue source is sales tax equalization, followed by state shared revenues, and Real Estate Excise Tax (REET). During the first full year of operation in 2000, the top three expense categories for the City are public safety at \$2.5 million, general administration at \$2.4 million, and roads operation and maintenance at \$1.3 million. Total core expenses in year 2000 are \$7.5 million. Core expenses will grow with population to \$8.5 in 2003.

The City's core expenses are substantially less than the project revenues in each year. The excess of revenues over core expenses grows from \$2.3 million in 1999 to \$7.3 million in 2003. These funds would be available to provide enhanced public services and to fund capital investments such as roads and municipal facilities.

## EFFECTS OF UNCERTAINTY IN FORECASTS

The table on the following page shows the range of revenues and core expenditures for the City under four different scenarios. Under the Baseline assumptions the City's general fund would earn \$15.8 million in revenues and incur \$8.5 million in core costs in the year 2003 leaving a remainder of \$7.3 million to pay for additional services. The Low scenario generates revenues minus core expenses of \$4.9 million while the High scenario generates \$9.3 million. The most conservative assumption possible is that Sammamish would have very low growth rates and that an initiative to the voters to repeal the Motor Vehicle Excise Tax passes at the ballot which would eliminate sales tax equalization payments and some other state shared revenues. Even under this most conservative assumption, the City would earn revenues in excess of core expenses of \$2.1 million.

**Table 6 : Year 2003 Revenues and Core Expenses for the City of Sammamish Under Alternative Scenarios**

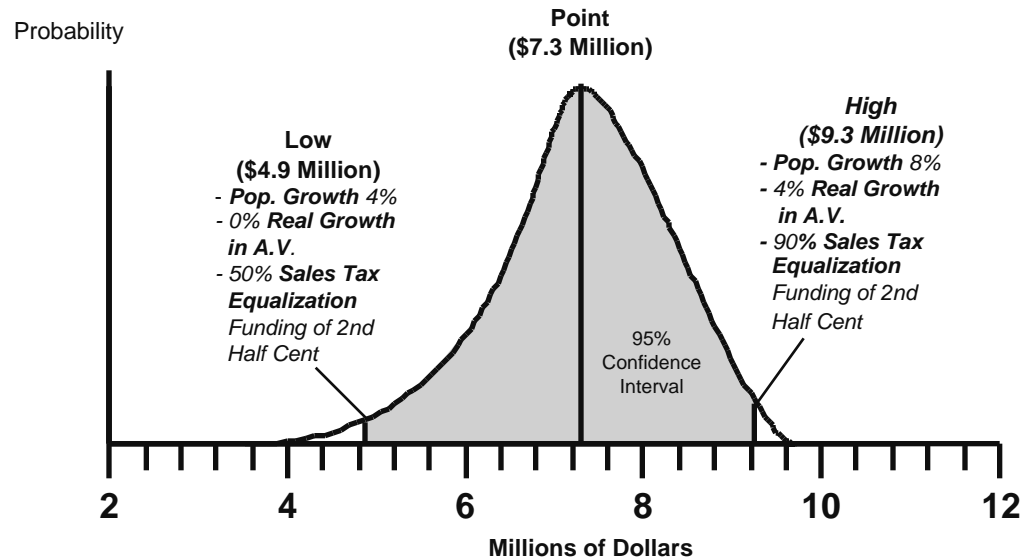
<i>In Thousands of 1998 Dollars</i>				
	Baseline	Low	Low without MVET	High
<b>General Fund Revenues</b>	<b>15,799</b>	<b>12,940</b>	<b>10,200</b>	<b>18,038</b>
<b>Core Expenses</b>	<b>8,474</b>	<b>8,081</b>	<b>8,081</b>	<b>8,786</b>
<b><i>Revenues minus Core Expenses</i></b>	<b><i>7,325</i></b>	<b><i>4,859</i></b>	<b><i>2,119</i></b>	<b><i>9,252</i></b>

The bell shaped figure on the following page presents another way of looking at the potential range of the City's financial cushion. Probability distributions like the following figure show the *kind* of variability that accompanies a forecast of future events. Our best estimate of revenues less core expenses of \$7.3 million corresponds to the highest point in the distribution. This means that, of all possible actual outcomes, \$7.3 million is the single outcome most likely to occur. As one moves above or below \$7.3 million, the curve dips down, indicating that those outcomes become less and less likely.<sup>2</sup> While there is no way to predict exactly what the actual revenues less core expenses will be, it is highly likely that they will be somewhere under the tallest part of the curve. In fact, there is a ninety-five percent probability that the actual outcome will fall within the shaded area of the diagram. For questions of financial feasibility, this means that there is a very small chance that the City's financial cushion will actually be below \$4.9 million.

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<sup>2</sup> Looked at another way, this probability distribution can be viewed as what a bar chart of outcomes would look like if future events could be replayed thousands of times. If we were able to allow events to develop over and over again any number of times, then most of the outcomes would fall in the range closest to our point estimate of \$7.3 million. And as outcomes moved farther away from this figure they would occur less and less frequently.

**Figure 3: Probability Distribution of Year 2003 General Fund Revenues minus Core Expenses (In millions of 1998 Dollars)**



## 5. POTENTIAL AREAS OF ADDITION

The analysis presented in this feasibility study has been performed specifically for the proposed area of incorporation. It should be noted, however, that there are a handful of areas that could potentially be added to the City. These areas are relatively small, with a total taxable assessed value equal to roughly four percent of the proposed City. Due to their size and their higher than average assessed values per capita, the addition of any of these areas should have only minimal or slightly positive effects on the fiscal position of the City.

**Table 7: Potential Addition Areas**

	Approximate Population
Rainbow Lake Ranch	90
Hidden Ridge at High Point	550
Highland Park	290
Good Samaritan Episcopal Church Property	NA

The first three of the above potential additions, while varying in size and population, each have per capita taxable assessed values which are greater than that of the area of proposed incorporation as a whole. Based on this information, we project that the addition of any one of these areas would not damage the City's financial feasibility, and might even slightly improve the City's overall fiscal position.

The fourth possible addition, Good Samaritan Church, consists of only three assessed properties with a total assessed value of \$372,000 (\$178,000 taxable and \$194,000 tax exempt). Because of its small size, we anticipate that the expansion of City boundaries to include Good Samaritan Church would have only the most minimal impact on the City's financial feasibility.

## 6. REVENUE

### PROPERTY TAX--REGULAR LEVY

For a residential city like the proposed City of Sammamish, the single largest, and perhaps the most stable, source of annual revenue is property tax. The property tax levy rate is set annually by a jurisdiction's legislative body (the City Council, school board, etc.) and is generally applied uniformly to all taxable property within the boundaries of the jurisdiction. Many taxing jurisdictions, like school or fire districts, have boundaries that cut through the proposed incorporation area, and as a result, different areas of the plateau are, and will continue to be, subject to different levy rates. The levy for the proposed City, however, will apply to all taxable property within the city boundaries.

State law delineates what types of property are and are not subject to property taxes. Those that are subject to taxation include "real" property (land, structures, and specific equipment affixed to structures) and some forms of personal property (some types of mobile homes, business related machinery, and supplies). While all of these types of property within a city's jurisdiction are assessed, some are exempt from taxation. These exemptions generally apply to properties owned by government, schools, churches, or property with other uses that provide public benefits.

According to state law, the levy a city can apply is constrained according to the services the city provides. If a city delivers its own fire and library services, it is allowed a maximum levy of \$3.60 per \$1,000 of assessed value. If a city does not provide either of these two services, state law generally restricts the maximum levy to \$1.60 per \$1,000 assessed value. The working assumption of this feasibility study is that the proposed City of Sammamish will not provide either fire protection or library services, so the \$1.60 maximum levy rate will apply.

In order to remain consistent in our "same cost/same level of service" analysis, we have assumed that the City will assess the maximum allowable rate of \$1.60 per \$1,000 AV. This leaves a shortfall of \$0.16 per thousand between what households paid in property taxes before incorporation and after. In order to insure consistency in our approach, we assume that these revenues are exactly "made up" through some form of new utility taxes. This assumption will be discussed further in the section entitled "Utility Taxes."

Of course, the simple levying of a tax does not guarantee full and immediate payment by all households. In any city, there will be some taxes

that are due but go unpaid. Fortunately for the City's finances, however, when it comes to property taxes, sooner or later almost all taxes that are levied are paid in full. In the case of an established city, in any given year, defaults on current taxes are almost entirely balanced out by receipts of back taxes paid from previous years. For a new city, however, there is a timing issue to consider. We have therefore assumed an effective delinquency rate of 4% for the first year, but as back tax receipts begin to "net out" delinquencies in subsequent years, we step this rate down to an effective rate of 2% in the second year and a steady state of 1% for all years thereafter.

## COUNTY ROAD DISTRICT REVENUE

As current constituents of unincorporated King County, residents of the Sammamish Plateau now pay a County Road District levy. Funds raised through this levy are used for maintenance and improvement of local roads in unincorporated areas of King County and for county highways. Road levy rates depend upon both projected expenditures as well as projected increases in assessed value of property in unincorporated King County. Our current estimate for the 1999 Road Levy rate is \$1.76 per \$1,000 of assessed value.

King County collects road taxes as part of their property tax assessment, and as a result, there are two periods during the year when most of revenues are received: in May and November. By law, any road tax revenues received by the County after the official date of incorporation go entirely to the newly incorporated city. Sammamish, with its projected incorporation date of August 31, is therefore positioned to receive a large portion of 1999 total receipts. After examining the way in which tax revenues flowed into the County during 1997, we have determined that Sammamish should expect to receive approximately 46% of total Road Levy revenues for 1999.

Again, according to law, these revenues may only be used for road-related expenses. It is permissible, however, for a city to borrow these funds from itself, as long as it pays back the loan, with interest, within three years. This provision will be of great benefit to the proposed City of Sammamish because these revenues represent the single largest inflow of cash during the City's first months of incorporation.

Given the assumptions and parameters outlined above, we forecast that the City of Sammamish will receive 1999 County Road levy revenues of \$2,313,000.

As we will discuss later in our analysis of start-up cash flows, we expect that, during start-up, the City of Sammamish will borrow from these funds

to cover costs and to repay the short-term debt that will be incurred in the first few months of the City's life. Given the estimated flow of funds in subsequent years, however, we project that the City should have no difficulty repaying the loan within the prescribed three-year time horizon.

## **SALES TAXES**

Under the heading of "sales tax" we refer to three distinct, but related sources of revenue.

- Retail sales tax – the 0.84% of every retail sale made within the city boundaries that is paid to the General Fund.
- Sales tax equalization – the amount a city might receive from the state to "equalize" city to city discrepancies in per capita collections of retail sales tax.
- Criminal justice sales tax – the city's share of a one tenth of one percent sales tax levy imposed specifically to help fund the criminal justice system within the county.

### ***Retail Sales Tax***

Retail sales tax is added on a percentage basis to the sale price of tangible personal property (with the exception of groceries and prescription medicine) and to many services purchased by consumers. Beyond its application to tangible personal property, sales tax is also applied to things like telephone service; the installation, repair, or cleaning of tangible personal property; and, most significant for the proposed City of Sammamish, to the construction or improvement of new or existing buildings (including labor and services provided throughout the process See RCW 82.04.050).

According to state law, a city's maximum sales tax rate is set at one percent, which is the same rate that King County currently collects in the planned incorporation area. Of this one percent, Washington State's Department of Revenue (DOR) receives one percent. (That is, the DOR retains one percent of one percent.) Beyond the small portion retained by the DOR, by state law, King County is eligible to receive 15% of the city's one percent. The City of Sammamish, thus, receives 84% of its 1% sales tax.

The City's one percent sales tax is split into two halves: a base half and an optional second half which a city could choose not to levy if it so desired. Since King County currently levies both halves, and since, if the City of Sammamish were to choose not to levy the second half the funds would

accrue to King County anyway, we have assumed that the full one percent will be levied by the City of Sammamish.

In a city like Sammamish, where there is little commercial activity but a great deal of current residential construction, most of the sales tax revenues over the near term will accrue from construction activity. The difficulty this presents is that, while businesses located within the boundaries are relatively easy to identify and account for, firms that engage in construction on the plateau and firms that deliver goods and services there can be located practically anywhere in the Puget Sound region. To deal with this, we have developed a two-track approach, first estimating the sales tax revenues that will be generated by businesses within the proposed incorporation boundaries, and then adding to them the revenues associated with new development.

It is important for policymakers and voters in the proposed City of Sammamish to remember that sales taxes generated from new construction will not continue to flow at current levels forever. As development on the plateau begins to level off, sales taxes generated from construction will fall. As long as sales tax equalization remains in place, this fall in retail sales tax will be mostly made up by equalization payments. In general, however, it would be prudent for readers to bear in mind the temporary nature of sales tax revenue from new development. When construction activity levels off, the sales tax base of the City of Sammamish will be small relative to most other Washington cities.

Feasibility studies carried out in the past have consistently underestimated sales tax revenues. Staff at the Municipal Research & Services Center have informed us that in city after city, *actual* receipts of sales tax revenues have substantially outstripped projections of those revenues derived by analysts. A large portion of this systematic error is caused by the difficulty of estimating the revenues generated by those sources not actually located within the boundaries of a city. Our two-track system of estimating sales tax revenues should go a long way towards developing more reliable estimates of sales tax revenue.

#### *Retail Sales Tax from Businesses within the City*

For estimates of sales tax revenues generated by businesses within the City boundaries, we relied heavily on work done by King County. Using sales tax information provided by the Department of Revenue, the County geo-coded all businesses in unincorporated King County, and from that list, added up all firms that fell within the incorporation boundaries. Once they had counted all of the area businesses, the analysts simply added up the historical sales taxes those businesses have paid.

For our projections of sales taxes from this base, we have assumed a growth rate consistent with our projections for growth in population. For our best estimate, we have assumed sales tax growth of 6% per year, and for our Low and High scenarios, 4% and 8% respectively.

#### *Retail Sales Tax from New Construction*

The approach described above is not a practical method for estimating the sales taxes from new construction. Using a method similar to the one used for new taxable assessed value, we estimated the average sales tax revenue from construction generated for each new individual on the plateau. As with our estimate of new assessed value, our estimate of average per capita sales tax from construction was derived through extensive conversations with consultants and construction firms familiar with the area. We have estimated that the City will receive approximately \$514 in sales tax revenues from housing construction per new individual moving to the City of Sammamish.

Using the above estimate in combination with our range of estimated population growth, we were then able to generate a range of sales tax revenues from new construction which varied with our different population growth scenarios.

#### *Total Retail Sales Tax Revenues*

Combining our estimates of the sales taxes from businesses and the sales taxes from new construction, we generated the following forecast of baseline sales tax revenues:

**Table 8: Total Retail Sales Tax Revenue Forecast for City of Sammamish**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Total</b>	\$169,000	\$1,024,000	\$1,037,000	\$1,051,000	\$1,066,000
<b>Per Capita</b>	\$ 5.77	\$ 33.14	\$ 31.93	\$ 30.86	\$ 29.91

## ***Sales Tax Equalization***

In 1982, in order to address issues of equity in the distribution of sales tax revenues between cities, the Washington State Legislature created the municipal sales and use tax equalization account. This account is funded through a share of the state's Motor Vehicle Excise Tax, and is distributed on a per capita basis to cities that receive regular sales and use tax revenues that are significantly lower than the average of Washington cities. If a city's annual per capita retail sales tax revenues are less than seventy percent of the average of all Washington cities, then the city is eligible to receive equalization. The goal of equalization is to provide sales tax poor cities with enough revenues to bring them up to seventy percent of the statewide average. This is how the target for equalization funding is set. (If a city levied both half pennies of sales tax, and if it received \$50 per person in sales tax revenues, while the seventy percent target of the state city average was \$70, then the goal would be to provide equalization funds to the city of \$20 per person.) As things currently stand, however, there is not enough money to bring all the cities eligible for equalization up to the seventy percent goal. Consequently, once the seventy percent goal is set, and once the target funding is determined for each eligible city, equalization funding is provided on a proportional basis. Currently, the funding level for the first half-cent of equalization is one hundred percent, but the funding for the second half-cent target could fall as low as fifty percent or lower.

Because it is primarily a residential area with relatively little commercial activity, the proposed City of Sammamish would be a sales tax poor city, and would qualify for sales tax equalization funding. Our projections for the inflow of funds from this source are based, first, upon our estimates of the sales tax revenues the city will bring in, and second, on discussions with experts on sales tax equalization at the Municipal Research and Services Center.

There is a good deal of uncertainty surrounding projections of the future target and funding levels for equalization. On one hand, as new sales tax poor cities incorporate across the state, the demands on the pot of money are *increased*. On the other hand, however, because the new cities will bring down the statewide municipal average of sales tax receipts, some cities that had previously been receiving equalization payment will suddenly find themselves above the new cut-off line. Hence, demands on funds will be somewhat *reduced*. As far as overall funding is concerned, projections for Motor Vehicle Excise Tax revenues indicate that there should be real growth in the overall amount of the distribution over time.

Given all of these factors, it is not a simple matter to forecast precisely where sales tax equalization will stand, even in the near term. However, because some of the forces discussed above are counter-balancing, sales tax

equalization, as an overall source of revenue, can be viewed as relatively stable.

For the year 2000, we have estimated equalization's seventy percent goal to be \$57.08 for each half-cent, with the first half-cent funding level set at 100%, and, for our baseline scenario, second half-cent funding of 70%. In our analysis of uncertainty of sales tax, we have examined the consequences of second half funding varying between a high of 90% and a low of 50%.

As was discussed in prior sections, there is some possibility that the Motor Vehicle Excise Tax (MVET) could be voted out if existence in the fall of 1998, and with it the funding source for equalization. However, for our primary sensitivity analysis we have assumed that the MVET will remain in existence as it currently stands.

Given an incorporation date of August 31, 1999, the first sales tax equalization disbursements for which the City of Sammamish will be eligible will be in January of the year 2000. Distributions are then made on a quarterly basis, in April, July, October, and the following January.

It is worth noting that, due to the design of sales tax equalization, when retail sales tax revenues and equalization payments are viewed in conjunction with one another they provide a relatively stable source of City revenue. For a sales tax poor city like Sammamish, if the City's retail sales tax revenues fall, this drop will be dampened by increases in equalization payments.

### ***Retail Sales Tax--Criminal Justice***

In 1992, voters in King County approved a one tenth of one percent sales tax levy specifically for the purpose of raising revenue to support criminal justice expenditures. This 0.1% sales tax is collected by the state's Department of Revenue and is distributed, through them, to the county which in turn passes 90% on to cities on a per capita basis. The county retains ten percent for its criminal justice function.

In 1997, King County made criminal justice sales tax distributions to cities of \$16.83 per person. For our forecasts we have assumed that, in inflation-adjusted dollars, this per capita funding level will not change over the horizon of our analysis. Therefore, in real terms, criminal justice sales tax distributions for the City of Sammamish will only vary with changes in the City's population.

## STATE SHARED REVENUES

All cities and towns in Washington State are eligible to receive certain “shared” revenues on the basis of their population. These state-collected revenues derive from three main sources: from liquor receipts (both profits from liquor sales *and* liquor taxes), from gasoline taxes, and from the Motor Vehicle Excise Tax. As a group, Washington cities and towns receive a fixed percentage of these source revenues, and that fixed percentage is then allocated to the individual cities on a per capita basis. (For shared profits from liquor sales, as an example, Washington cities and towns as a group receive 40% of the total profits. This lump of money is then distributed to the individual municipalities according to their respective populations.) As we vary our population growth scenarios in our analysis of uncertainty, we will also indirectly vary the funds received by the city from these shared revenues.

Among revenue streams designated as “shared” are sales tax equalization payments, which we discussed in our earlier analysis of retail sales tax. Other shared revenue sources include:

- Liquor Excise Tax
- Liquor Profits
- Unrestricted Gas Tax
- Restricted Gas Tax
- Motor Vehicle Excise Tax
- Camper/Trailer Excise Tax
- Criminal Justice Revenues – General
  - “Contract Police” Grant
  - “Innovative Law Enforcement” Grant
  - “Domestic Violence Prevention” Grant
  - “Child Abuse Prevention” Grant

The first seven of the above shared revenues will flow automatically to the proposed City of Sammamish upon incorporation. The latter four, however, are received by cities only by application.

In general, our approach to estimating these revenue streams has been to get a good estimate for the 1998 per capita allocation level, and from there, assume that distribution levels will not change in inflation-adjusted terms over the period of our analysis. Certainly, this assumption will not turn out to be strictly accurate; there will doubtless be some variation in each of the per capita funding levels from year to year. However, these specific fluctuations will in the end, on average, come very close to balancing out. Further, given the range of variables affecting the respective distributions,

our ability to forecast specific movements is so limited that attempts to do so would not be very useful.

### ***Liquor Excise Tax***

According to Washington State law, a share of the state collected excise tax on liquor is distributed directly to cities on a per capita basis. In order to receive both liquor excise tax distributions as well as liquor profit distributions, a city is required to spend at least 2% of those distributions to support an approved alcoholism or drug addiction program. We have provided for this required expenditure in our projected miscellaneous expenditures. Liquor excise tax distributions are made on a quarterly basis, on the last day of January, April, July, and October.

Currently the consultants at the Municipal Research and Services Center (MRSC) project the 1998 per capita distributions for liquor excise taxes to be \$2.92. We have assumed this constant, inflation-adjusted distribution level for the full period of our analysis.

### ***Liquor Profits Revenues***

Like liquor excise tax distributions, liquor profit distributions are made to cities on a quarterly basis. Liquor profits, however, are distributed in different months. Specifically, they are distributed on the last day of March, June, September, and December. The MRSC currently projects liquor profits distribution of \$5.22 per capita in 1998.

### ***Unrestricted Gas Tax***

A portion of the state-collected gas tax is shared directly with municipalities which bear a substantial portion of the overall costs of road maintenance and construction. The “unrestricted” portion of these funds is disbursed to help defray the costs of street maintenance. The “restricted” portion is distributed to cities under the provision that the revenues be deposited in an “arterial” fund—to be used strictly for road construction, improvement, chip sealing, coating, and the repair of arterial highways and city streets. Both the unrestricted and restricted disbursements are distributed on a monthly basis.

MRSC currently estimates 1998 distributions for the unrestricted portion of the gas tax to be \$15.63 per capita.

### ***Restricted Gas Tax***

Restricted gas tax distributions must be assigned to an “arterial” street fund, which is limited in its uses. For a city like Sammamish, however, there are enough road capital needs that the limitations on the spending of these revenues should not pose a problem.

MRSC estimates that the restricted gas tax distributions will be \$7.31 per capita in 1998.

### ***Motor Vehicle Excise Taxes***

The Motor Vehicle Excise Tax is an important source of funds for many Washington cities. It serves as the source for sales tax equalization funds as well as a source for many criminal justice disbursements. A portion of the MVET, however, is distributed on a strict per capita basis to cities and towns. The express purpose for this distribution is to help cities fund police and fire protection services, as well as to help fund the preservation of public health. Since practically all cities spend a large part of their budget on these services, this is not really a binding constraint. MVET revenues are distributed by the state on the last day of January, April, July, and October.

Estimations for the 1998 MVET distribution are \$12.23 per capita.

### ***Camper/Trailer Excise Taxes***

As with the Motor Vehicle Excise Tax, cities and towns in Washington State receive a portion of the state’s collection of excise taxes on travel trailers and campers. These funds are also distributed on the last day of January, April, July, and October.

The Camper/Trailer Excise Tax distributions for 1998 are estimated to be \$0.30 per capita.

### ***Criminal Justice Revenues—General***

A portion of the Motor Vehicle Excise Tax is allocated for distribution to cities in order to augment expenditures for the provision of criminal justice services. A small portion of these criminal justice disbursements is made to cities on a strict per capita basis. The remaining share is distributed for specific programs (some of which are discussed below) and available only by application. The “general” criminal justice payments are distributed, like the

cities' share of the MVET, on the final day of January, April, July, and October.

MRSC estimates the 1998 level of general criminal justice distributions to be \$0.34 per capita.

### ***Criminal Justice Revenues--by Application***

Most of the criminal justice distributions funded through the Motor Vehicle Excise Tax are distributed to Washington cities and towns only by application. For our analysis, we have assumed that the City of Sammamish will not receive any of these disbursements in 1999, but will apply for, and be awarded, distributions for the following four program areas beginning in the year 2000.

#### ***'Contract Police' Grant***

Cities that contract for police services can apply to receive per capita distributions from the MVET criminal justice fund to help defray the costs of these services. Currently, the per capita distribution for this program is \$2.83 per year.

#### ***'Innovative Law Enforcement' Grant***

A small portion of the criminal justice fund is available to cities that create innovative law enforcement programs. While we are working under the assumption that the City of Sammamish is going to contract with King County for its policing services, conversations with the State Department of Community, Trade, and Economic Development, indicate that the City of Sammamish should be able to submit a competitive grant application. The current per capita distribution for this grant is \$0.37 per year.

#### ***'Domestic Violence Prevention' and 'Child Abuse Prevention' Grants***

Both the Domestic Violence Prevention Grant and the Child Abuse Prevention Grant distributions are currently projected to be just slightly less than \$0.50 per capita in 1998.

### ***Summary of State Shared Revenues***

Applying the above estimated distribution levels to our baseline population estimates, we have arrived at the following projections for State Shared Revenues:

**Table 9: Summary of State Shared Revenues Forecasts for City of Sammamish**

<i>State Shared Revenues</i>					
<b>Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
MVET	120,000	378,000	397,000	417,000	436,000
Liquor Tax	29,000	90,000	95,000	99,000	104,000
Liquor Profits	51,000	161,000	170,000	178,000	186,000
Unrestricted Gas Tax	153,000	483,000	508,000	532,000	557,000
Restricted Gas Tax	72,000	226,000	237,000	249,000	260,000
Camper/Trailer Excise Tax	3,000	9,000	10,000	10,000	11,000
Criminal Justice Revenues - General	3,000	11,000	11,000	12,000	12,000
<b>Total Shared Revenues</b>	<b>431,000</b>	<b>1,359,000</b>	<b>1,428,000</b>	<b>1,497,000</b>	<b>1,566,000</b>
<i>State Shared Revenues by Application</i>					
<b>Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Contract Police Grant	-	87,000	92,000	96,000	101,000
"Domestic Violence Prevention" Grant	-	15,000	16,000	17,000	18,000
"Child Abuse Prevention" Grant	-	15,000	16,000	17,000	18,000
"Innovative Law Enforcement" Grant	-	11,000	12,000	13,000	13,000
<b>Total Shared by Application</b>	<b>-</b>	<b>130,000</b>	<b>136,000</b>	<b>143,000</b>	<b>149,000</b>

## REAL ESTATE EXCISE TAXES

The Real Estate Excise Tax (REET) is levied on all sales of real estate, applied to the full sale price of the property in question. According to state law, a city that is required to plan under the Growth Management Act can levy a Real Estate Excise Tax totaling 0.5% of the selling price of the property. The first 0.25% of the Real Estate Excise Tax must be used to fund capital facilities expenditures that have been identified in the city's comprehensive plan. The second 0.25% REET revenues must also be used to fund capital facilities, with the added stipulation that they cannot be used for the acquisition of land for parks.

It is difficult to develop a truly accurate estimate for Real Estate Excise Taxes for an area that has previously been part of unincorporated King County. While the County does levy a full 0.5% excise tax, they do not keep records of the revenues that have historically come from specific areas. Because of this difficulty, and because we evaluate a range of possible growth rates over the period of analysis, our estimations of Real Estate Excise Taxes follow two separate tracks: 1) REET from the resale of previously developed property, and 2) REET from the sale of new development.

### ***REET from Resale of Property***

To estimate Real Estate Excise Taxes from resale, we rely on the experiences of local cities that are no longer growing at a significant rate. In a city with virtually no new development going on, all of the REET revenues could be assumed to come from resale of existing property. From the experience of these stable cities, we could derive an estimate of what portion of a city's existing assessed value would turn over in a given year and hence generate REET revenues.

After looking at a number of local cities, we have concluded that the most comparable city with a stable real estate market is Mercer Island. While there are other cities in King County with low population growth rates, none are as comparable in size and total assessed value to the proposed City of Sammamish as Mercer Island. In 1996, Mercer Island received approximately \$238 from REET per million dollars of assessed value. For purposes of comparison, the city of Redmond received \$320 per million dollars of assessed value, and Woodinville \$345. Mercer Island residents are older, on average, than residents of the Sammamish Plateau, and probably somewhat less likely to move from one house to another. Consequently, we have estimated REET from resale of existing development on the plateau of \$250 per million dollars of assessed value versus Mercer Island's \$238.

### ***REET from Sales of New Construction***

To estimate Real Estate Excise Tax revenues resulting from the sale of new construction, we used the same approach as we did for assessed value and sales tax revenues. To arrive at the total value of new construction sales in a given year, we simply multiplied the average per capita value of new construction by our estimate of new population. To determine Real Estate Excise Tax revenues, we applied our assumed half-percent REET rate to the resulting total sales.

### ***Total REET Revenues***

Combining our Real Estate Excise Tax revenues from resale of previously developed property with our estimate of REET from new construction, we have projected total REET revenue of:

**Table 10: Total REET Revenue Forecast for City of Sammamish**

<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
540,000	1,168,000	1,727,000	1,815,000	1,905,000

It is important to remember that the use of REET revenues is strictly limited to capital investments. As we mentioned in our discussion of sales taxes from new construction, voters should recognize that the REET revenues coming from new construction will not continue to flow indefinitely. The Sammamish Plateau is currently undergoing rapid development, and while that development will probably continue through the five years of this analysis, it will not continue forever. We feel, therefore, that REET revenues generated from new construction should be viewed as temporary revenues, earmarked for lump-sum capital investments.

## **FINES AND FORFEITS REVENUES**

Based upon the advice of King County District Court we have used the experience of the City of Woodinville to estimate how much revenue the City of Sammamish could expect to receive from fines and forfeits on a per capita basis. The District Court has indicated to us that, while the revenues generated from fines and forfeits can vary widely from one city to the next, Woodinville's experiences should be a good indicator of both court revenues as well as court costs. Using data provided by the Court, we have therefore assumed per capita fines and forfeits revenues equal to Woodinville's 1996 receipts of \$4.87.

It is important to note that there is a strong correlation between revenues generated from fines and forfeits and the amount of court services used by a city. For our analysis, we have assumed that the City of Sammamish will contract with the King County Court system for its court services, and that the costs of these services will be directly determined by the number of case filings. Consequently, increases or decreases in fines and forfeits revenues flowing into the City should be dampened by increases or decreases in court service costs incurred by the City.

Our forecast for fines and forfeits revenues for 1999 represents receipts for two months. Technically, the city will be in a legal position to receive fines and forfeits immediately, but from a practical standpoint, no fines and forfeits will be forthcoming until after the first settlement. We have therefore factored in a two-month lag time between the date of incorporation and the first receipt of funds.

## **UTILITY TAXES**

Unlike counties in Washington State, cities are allowed to impose taxes on many of the utility services provided within the city boundaries. According to statute, cities in Washington State are allowed to tax private utilities such as telephone, natural gas, sewer, and electricity up to a rate of six percent. This

rate can be exceeded upon voter approval. No such statutory maximum applies to taxes/franchise fees on cable television, although cable television does enjoy certain protections against “discrimination” under current Federal statute. (King County currently imposes a 5% cable television franchise fee, and as we will outline later, we have assumed the City will continue this levy.) City administrations have a great deal of flexibility in how they levy utility taxes. A city council can choose structures ranging from the imposition of a single tax on a single utility, to the imposition of different tax rates on all qualifying utilities. In general, however, the two largest sources of utility revenues to cities in Washington State are electricity and telephone taxes. According to an Association of Washington Cities (AWC) survey, on average, electric utility taxes generate about five percent of the “typical” Washington city’s general fund.

The Municipal Research & Services Center reports the following breakdown of utility revenues as reported by AWC respondents to the survey:

**Table 11: 1996 Washington State Cities’ Utility Tax Revenues by Source (as a portion of total city utility revenues as a whole)**

	<b>Portion of Cities' Total Utility Tax Revenues</b>
Electric	36%
Telephone	19%
Sewer	12%
Garbage	8%
Natural Gas	8%
Water	8%
Cable	4%
Cellular Phone	4%
Storm Drainage	1%

In order to remain true to our “same cost/same level of service” baseline, we have assumed that the new City Council will impose some form of utility tax to make up the difference between the disappearing road tax levy and the new City property tax that is limited by state law. As we outlined in the prior sections, our projected King County road tax levy for 1999 is \$1.76 per \$1,000 of assessed value, while current statute limits the regular City levy to a maximum of \$1.60 per \$1,000.

Ultimately, the question of whether utility taxes will be imposed, and if so, what form they will take, is a policy decision for the Sammamish City Council. Therefore, for purposes of our analysis we have simply assumed

that *some* form of utility tax will be imposed, and that the revenues generated from its adoption will exactly balance out the “lost” revenues resulting from the sixteen cent per \$1,000 gap between the ending Roads levy and the new City levy. Under this assumption, we have calculated the revenue from the utility tax by projecting revenues that would have been collected if the City could have increased its levy by \$0.16 per \$1,000 of assessed value.

The City of Sammamish will have the option of imposing utility taxes that would generate more revenues than assumed above. In fact, as we touched on above, many cities in King County *do* raise substantial revenues through utility taxes. Both Issaquah and Redmond, for example, generated revenues of more than \$100 per capita in 1996 from utilities. For the sake of comparison, when we combine the utility tax assumed above with our projected cable television franchise fee to be discussed later, we estimate that, in the year 2000, the City of Sammamish would be generating only roughly \$23 per capita through utility taxes/franchise fees.

## **KING COUNTY VEHICLE LICENSE FEE**

King County currently imposes a \$15 license fee for all vehicles registered in the county. Our projections for this revenue stream have been derived from the historical per capita receipts of two other cities: Issaquah, and Maple Valley. Based on data from these cities, we estimate per capita license fee receipts of \$10.14 for the City of Sammamish.

## **SURFACE WATER MANAGEMENT FEES**

Under the system currently in place, King County’s Water and Land Resources Division administers the surface water management (SWM) program in portions of King County in pursuit of dual goals: 1) the preservation, protection and enhancement of surface water resources such as streams, lakes, and wetlands, and 2) the management of the impacts of flooding on persons and property. The County funds these activities through fees that are imposed on all developed property within the designated SWM Program services area (approximately the urbanized western one-third of King County). For single family residences, the fee is currently a flat rate of \$85.02 per year, collected as a distinct line item on property tax bills.

Currently, 14.56% of King County’s service charge are funds dedicated to the repayment of debt service on SWM bonds (8.1% for a bond issued in 1992—scheduled to be fully paid in the year 2002, and 6.46% for a bond issued in 1996—scheduled to be fully repaid in 2016). By statute, when a portion of the SWM service area is incorporated, the properties within the

incorporation area continue to pay to King County the debt service portion of the service charge until the debt is retired. In addition to the two bonds currently in place, King County has indicated that there is a strong possibility that another SWM bond (with debt service charges to the plateau of an estimated 3.5%) will be issued in late 1998. We have assumed that this bond issue *will* take place and we have therefore included its costs to the City in our calculations. Based on the above percentages, we project that upon incorporation Sammamish will inherit debt service expenses totaling almost \$190,000. Of that total, approximately \$85,000 will disappear after the year 2002.

Upon incorporation, the City of Sammamish will have the option of entering into an interlocal agreement with King County for continuation of day-to-day SWM services. Alternatively, the City government could choose to operate the program on its own. We assume that the City will contract with King County for SWM services, and that, as part of its start-up, the City Council will enact fee structures consistent with those currently in place. Based upon an incorporation date of August 31, 1999, the City of Sammamish is currently slated to receive SWM fee revenues for the final quarter of the year. By statute, although the City would be in existence throughout the month of September (which falls in the third quarter), King County maintains the right to receive all third quarter 1999 revenues. Assuming that the City will want to enter into an interlocal agreement with the County, however, receipt of these revenues may be subject to negotiation.

King County has provided 1997 revenue information for the proposed City of Sammamish indicating gross SWM revenues of \$1,051,016. This figure represents the sum of collections from private entities together with collections from the State and County for their transportation facilities. Subtracting the expected debt service obligation of \$189,814, the net revenues for 1997 come to \$861,202. Since a large portion of SWM revenues on the plateau are derived from fees paid by residences, we have set the growth rate for SWM revenues over time at a rate slightly lower than our estimated population growth rate. For our baseline estimate, which assumes population growth of 6% of 1997, then, our projected growth rate for SWM revenues is 4%. (For our High and Low scenarios, assumed SWM revenue growth is 6% and 2% respectively.) To be clear, this range of inflation-adjusted growth rates is *our* estimate. The County's Water and Land Resources Department is careful to point out that, for the whole area under their purview, they use assumed revenue growth rates significantly lower than those listed above. Our higher growth rates reflect the reality that growth in the number of developed properties on the plateau is significantly greater than the SWM program area as a whole.

Surface water management revenues must be used by a city for specific purposes. First among those purposes, of course, are the day-to-day costs of providing of a range of surface water program services. Once these day-to-

day costs have been subtracted from net revenues, however, there should still be a substantial sum of money available. These funds can be used for two purposes: First and foremost, funds should be used to pay for surface water management capital investments; secondarily, however, remaining SWM funds can legitimately be used to defray the cost of maintenance or construction for roads that relate directly to the surface water management system. Given King County's estimate of the day-to-day costs of managing the SWM system (which we detail in our section on expenses), and given the currently identified capital needs of the system, we have projected that there *will* be SWM revenues available for transfer to the Road Fund if the City chooses to do so. For our analysis, we have assumed that the City of Sammamish will choose to transfer "excess" surface water management funds to the road fund. Since we have treated surface water management funds separately from our General Fund in the Executive Summary, this transfer appears as a cost to the SWM fund and as a credit to the General Fund. Projections for these SWM Transfers to Roads will be presented as part of our examination of SWM expenses.

## **CABLE TELEVISION FRANCHISE FEES**

While Washington State counties are not allowed to impose utility taxes, they are allowed to impose franchise fees, and at the present time, King County does impose such a fee on cable television. Currently, residents of unincorporated King County pay a 5% franchise fee as part of their charge for cable service. We have assumed that a newly incorporated City of Sammamish would replace King County's franchise fee on cable television with a 5% fee of its own.

In order to estimate the revenues generated by this fee, we have collected data from comparable cities that also impose a 5% fee. We estimate that, on average, a city like Sammamish could expect to receive annually \$8.68 per capita from this source.

Since this fee is already being collected, we assume that the shift in payments would be accomplished with relative ease. Therefore, we have assumed only a one-month lag time between incorporation and the first receipt of payments.

## **COMMUNITY DEVELOPMENT BLOCK GRANT**

According to King County's Department of Community and Human Services, if residents of the Sammamish Plateau choose to incorporate in 1999, the new City of Sammamish will be invited to join the King County Community Development Block Grant and HOME Investment Partnerships

Consortia. Based on the City's share of the Community Development Block Grant (CDBG) Consortium's low and moderate-income population, the City of Sammamish is eligible to become a pass-through city. This would entitle the City to receive a direct share of the federal CDBG funds to allocate to local needs, which primarily benefit low and moderate-income persons.

In 2000, in order to qualify as a pass-through city, the City will need to develop a strategic plan, which meets HUD requirements and an allocation process for distribution of their anticipated CDBG funds. The Plan will include an assessment of the City's housing and community development needs and adopted strategies for addressing those needs.

If the City becomes a pass-through city in 2001, the City could qualify for approximately \$53,000 in that year, of which \$8,200 can be used for human services, \$6,500 for planning and administration, and the balance for capital projects. This is based on current projections of the CDBG entitlement and, according to the County, is subject to change. If the CDBG entitlement is decreased in the year 2001 and the City's share of CDBG funds is below \$50,000, the City would not qualify to become a pass-through city. The City would be eligible to participate as a small city and would compete with other small cities and nonprofit agencies for CDBG funds administered by King County.

## **BUILDING PERMIT REVENUES**

Upon incorporation, the responsibility to provide land and building regulation within the boundaries of the City of Sammamish will transfer from the County to the new City. Coincident with this new responsibility, the City will be the recipient of all new revenues generated through the issuance of building and land use permits. In an area undergoing rapid development like the Sammamish Plateau, the costs and revenues associated with this permitting activity could be significant. Over the past few years, millions of dollars have flowed both into and out of King County as a result of permitting on the plateau. Given current conditions, however, it is not clear that the recent pace will continue, even into the near future.

Regardless of current circumstances, however, the new City will have to establish its own fee structure for building and land regulation. As a matter of policy, King County has adopted a "full cost recovery" model, meaning that the County's goal is to cover the costs of regulation through the revenues generated by its permitting and inspection activities. Of course, whether or not the City of Sammamish will choose to work from the same philosophical basis is ultimately a question of policy for the new City Council to decide. For this analysis, we have assumed that the City *will* adopt a similar full cost recovery model. Our fundamental assumption is that the costs and revenues associated with the Land Use Office will have a zero net affect on the City's

General Fund. This assumption is consistent with our overall approach and is also a useful way to deal with the high degree of uncertainty in projecting permit revenues.

According to information provided by King County, in the area of the proposed City of Sammamish over the years 1996 and 1997, average yearly gross permit revenues have been approximately \$4.8 million. Of this gross amount, direct transfers to schools and the transportation impact mitigation fund have averaged approximately \$1.3 million. Subtracting this from the gross receipts, the net permit revenues received by King County from the area of proposed incorporation over the two-year time span were approximately \$3.5 million per year.

Given the current circumstances surrounding development on the plateau, including the present moratorium on the issuance of water permits in the Sammamish Water District, it is not clear that the City of Sammamish will receive permit revenues of the same magnitude as King County in recent years. However, because we are assuming that the costs and revenues associated with building and land regulation will exactly balance out, uncertainty in this one area should have no effect on the basic question of fiscal feasibility.

We have separated our projections of the costs and revenues associated with building and land use regulation from other general government activities. Acknowledging the high level of uncertainty surrounding projections of permit revenues, we have made a general assumption that they will be in the range of \$1 million per year, and that these revenues will go to paying equal building permit and land use office costs of \$1 million per year.

## **TRANSPORTATION IMPACT FEES**

To mitigate the increased demand on transportation networks accompanying development, cities can impose transportation impact fees. In order to do this, however, a new city must have a comprehensive plan which includes, among other things, assessments of the current transportation system, projected transportation facilities needs, and projections of the costs of addressing developmental impacts in specific areas.

Under the Growth Management Act, the City of Sammamish will be required to develop the above analysis anyway, but to do so to most residents' satisfaction takes money and years of time. King County currently has a complex Mitigation Payment System (MPS) in place, which developers on the plateau have been paying into for years. If the City chooses to do so, and if the County and the City reach agreement on the terms of an interlocal

agreement, the new City of Sammamish could continue to participate in the County's larger system.

From a theoretical standpoint, it makes sense for Sammamish to remain in the larger system. The approach the County takes is complicated, but as a general principle, it treats transportation needs in the county as one big, interconnected system. And this, of course, is how transportation networks actually work. People get in their cars at home on the plateau and may, in a given day, use roads, bridges, and highways all over the region. For this reason, according to King County, other cities such as Issaquah and Redmond are expected to be joining the County's MPS.

From a standpoint of practicality, too, there would be an advantage to Sammamish remaining in the system. By simply adopting the County's plan and payment structure, the City would be able to continue imposing impact fees on development that would go uncollected as the City moved through the long process of developing a comprehensive plan. It is important to note, however, that if the City were to decide to continue as a player in the County's MPS system, it would have to do so as a reciprocating partner. That is, fees paid by developers on the plateau would, in part, be devoted to funding transportation projects elsewhere in the system, just as fees paid by developers outside the City would, in part, be devoted to transportation projects within Sammamish.

Upon careful investigation, of course, the City may find that it would be to its advantage to develop an impact fee system of its own. Depending on the projected flow of MPS funds to and from the City, it is possible that Sammamish would retain more fee revenues by not participating in the larger system. Of course, if the City were to choose this path, it would ultimately mean impact fees from the area most affected by projects leading into and out of the plateau would not be available to help complete these projects.

In the end, how to handle impact fees will be a policy decision for the City. For our analysis, we have assumed that the City will participate in the County's MPS system. This assumption is consistent with our overall approach of estimating feasibility based on similar costs for similar levels of service, and we believe it to be the appropriately conservative course. Any choice by the City *not* to participate would only be made if the City believed it could improve its position.

Our estimate of yearly impact fee revenues, therefore, is based on the revenues that have historically flowed into funds for transportation projects located within the boundaries of the City of Sammamish. From information provided to us by the County, we have estimated that, on average, approximately \$387,000 of impact fees has flowed into the City per year.

Based upon indications by the County, we have projected that the City will receive that amount each year throughout the period of our analysis.

These revenues are restricted in their use. In general, while borrowing between discrete MPS funded projects may occur, dollars collected for a specific capital project must ultimately be spent on that project. Because of these restrictions, we have not included these revenues as part of our General Fund. Rather, we have applied anticipated Mitigation Payment System revenues directly to the City's capital investment budget for roads. This will be outlined further in our section on capital investment.

## OPTIONAL REVENUES

In the previous section, we have examined the revenues we would expect the City of Sammamish to receive if the City were to pursue a policy of maintaining taxes at their current rates. This does not mean, however, that the City of Sammamish could not choose to increase its revenues. If the City desired to raise additional revenues, it could do so through, among other means, a property tax – excess levy, additional utility taxes, business and occupations taxes, or, potentially, a gambling tax. For a complete discussion of revenue mechanisms available to cities, policymakers should look to the Municipal Research and Services Center's "Revenue Guide."

### *Property Tax--Excess Levy*

As a newly incorporated city, the proposed City of Sammamish would not have any excess levy upon incorporation, and would probably not seek one within the horizon of this analysis. State law, however, does provide room for excess levies approved by the voters within the city.

A city can present a ballot measure to voters for the approval of an excess levy under two conditions: 1) for a special purpose, or 2) for general government purposes with the stipulation that the approved excess levy must be limited to one year. For the latter, it is not necessary for the city to specifically identify the proposed use or uses of the excess funds. In order for excess levies to be accepted, however, the ballot must be approved by sixty percent of the total votes cast, and there must be a voter turnout of at least forty percent of the last general election.

### *Additional Utility Revenues*

For our baseline analysis, we have anticipated that the City of Sammamish would levy a small utility tax to make up the difference between the existing King County Road levy and the City property tax levy that would

replace it. If the City chose to do so, however, it could increase utility taxes above the level we have anticipated. In fact, residents of many other cities *do* pay substantially higher utility taxes per person than we have projected for Sammamish.

### *Business and Occupation Taxes*

While King County does not have the legal authority to impose business and occupation (B&O) taxes, the City of Sammamish could impose a variety of such taxes. As a Washington State city, the City of Sammamish would have the authority to impose a tax of up to 0.2 % on the gross receipts of all businesses located within its boundaries. Most cities in King County choose not to impose this tax.

As an alternative, the City has the option of developing some form of business licensing program. Such a licensing program might require all businesses to register with the City, whether as a one-time event or on an annual basis. As part of this registration process, the City could then impose a licensing fee.

### *Gambling Taxes*

Washington State statute provides that cities and towns that choose to allow gambling activities within their boundaries may tax the revenues generated by those activities. To the best of our knowledge, there are currently no such activities taking place within the proposed boundaries of the City of Sammamish. If gambling were to be allowed, however, it would be a potential source of revenues for the City.

## 7. OPERATING EXPENSES

### GENERAL ADMINISTRATION

One of the single largest expenses the City of Sammamish would face upon incorporation is the cost of administering the City. With salaries to be paid and benefits to be provided, along with all of the costs of facilities, supplies, and equipment, the administration of a city entails the meeting of myriad needs, none of which come free.

Other recent incorporations in King County are instructive about the costs of administration. In practically every case, when we compare the costs of administration as projected by the feasibility study with the costs actually incurred by the cities after they incorporate, the actual costs exceed the analysts' forecasts by a substantial margin. Of course, having noted this discrepancy, we need to remember that the goal of this feasibility analysis is not to predict what the City of Sammamish might *choose* to spend on administration, but rather, to estimate the level of expenditures that would be consistent with providing a level of service equal to that which residents of the plateau are currently receiving. After incorporation, cities are clearly free to use their resources in any manner they see fit. Given our forecasts of the difference between the "core" costs of Sammamish and their available revenues, we believe that it is highly likely that the City *would* choose to expand the services provided by City Hall beyond our baseline. However, the magnitude of the aforementioned discrepancies suggests that the costs of administering a city are greater than what might at first be imagined; and we have borne this in mind while generating the following estimates.

We want to reiterate that the estimates included in this analysis should not be viewed as a blueprint for the actual administration of the City of Sammamish. As a general principle, in our attempt to provide a conservative estimate of feasibility, we have consciously sought to be high in our forecasts of costs and low on revenues. For example, we have derived estimates of salaries for specific positions by taking the 85<sup>th</sup> percentile of the actual salary range as reported by the Association of Washington Cities' Salary Survey and then rounding the number *up* to the nearest \$5,000. In some cases the City may be able to fill a specific position at a salary lower than our estimate, and in some cases the City may have to pay more. In aggregate, however, especially considering the historical tendency of analysts to underestimate administration costs, we feel that the figures outlined below are appropriately conservative.

Lastly, readers should note that the following projected expenses for administration do not include any costs for running a building permit and land use office. As we discussed in our examination of revenues derived

from issuing land and building permits, we have assumed that the land use office will be fully funded by the revenues it generates through inspection and permit fees. Consequently, the costs and the revenues generated by building permits have been held separate from the City's General Fund.

### ***City Council***

Assuming that the City of Sammamish chooses to incorporate as a Council/City Manager government, the City will have a seven member Council elected by voters living within the boundaries of the newly incorporated City. We have assumed that the members of the Council and the Mayor will serve part-time. The Mayor will be elected by the Council as directed under 35A.13.030 RCW. Upon election, the Mayor will preside over Meetings of the Council, and serve as the ceremonial leader of the City.

By statute, upon incorporation the City of Sammamish will be required to compensate the members of the Council at a rate of \$400 per month and the Mayor at a rate of \$500 per month. For our analysis, we have assumed these rates of remuneration

### ***City Manager's Office and General Administration***

In the Council/City Manager form of government it is assumed that the City Council has only one employee: the City Manager. The City Manager, then, is ultimately responsible for hiring, supervising, and the dismissal of all further staff.

We have projected staffing for the administration of the City of 23 full time employees in the base year. This staffing level, as outlined in the following table, includes staffing for the City Manager's Office, for the City Clerk's Office, Finance, Engineering, Planning, Information Systems, and for oversight of Parks and Recreation.

**Table 12: Staffing Level and Estimated Salaries Forecast for City of Sammamish**

<b><i>Staffing Levels and Salaries</i></b>		<b>Salary</b>	
<b>City Manager's Office</b>	<b>FTE</b>		
City Manager	1.0	\$	95,000
Management Assistant	1.0	\$	50,000
<b>Administration</b>			
Director of Admin. & Fin.	1.0	\$	75,000
Accountant - Senior	2.0	\$	50,000
Accounting Clerk	1.0	\$	35,000
City Engineer	1.0	\$	70,000
Engineer Tech.	2.0	\$	45,000
Public Works Director	1.0	\$	80,000
Community Development Dir.	1.0	\$	75,000
Information Systems Manager	1.0	\$	65,000
City Clerk	1.0	\$	60,000
Legal Secretary	1.0	\$	35,000
Administrative Secretary	2.0	\$	40,000
Receptionist	1.0	\$	30,000
Senior Planner	1.0	\$	55,000
Parks Maintenance Supervisor	1.0	\$	55,000
Recreation Coordinator	1.0	\$	55,000
Miscellaneous FTE's	3.0	\$	60,000
<b>City Council [Not included in FTE count]</b>			
Council Members	6.0	\$	4,800
Mayor	1.0	\$	6,000
<b>Total FTEs</b>		<b>23</b>	<b>1,319,800</b>

As shown in the chart above, we have included 3 full-time equivalent (FTE) positions designated only as "Miscellaneous FTEs," compensated at a rate of \$60,000. We have assumed this staffing level through the year 2000. For each of the two subsequent years we have added 3 more Miscellaneous FTEs, bringing the total to 29 by the year 2002. Clearly, the new City Manager will have his or her own ideas on staffing. Our intention here is only to estimate a reasonable headcount. Based on our assumption that Sammamish will be contracting for many of its services, and based on comparisons with other cities, we believe that a staff of 29 FTEs in the year 2002 fulfills that criterion.

### *Salaries and Benefits*

We arrived at the above salary assumptions, first by calculating the 85<sup>th</sup> percentile of the salary range reported in the 1997 Association of Washington Cities' Salary Survey for each position, and then, by rounding that figure *up* to the nearest \$5,000.

Our projected total cost of salaries in the first full year of incorporation comes to slightly more than \$1.3 million. Given the current practices of cities in Washington State, we expect that these salaries will increase at a rate greater than inflation. In most cities we have looked at, these increases stem from two different sources: 1) from Cost of Living Allowances (COLAs), and 2) from increases based on job performance. While there is a substantial range in the average rate of salary increases from city to city, we have estimated "real" annual salary increases of 3% (that is, 3% per year, in inflation-adjusted terms).

We estimated the cost of benefits for City employees to be equal to 30% of salaries. We checked the experiences of other cities with similar staffs and found that, in general, the costs of benefits were a little lower than our estimate. Our 30% rate, however, is a widely accepted figure and, again, we feel it to be an appropriately conservative assumption.

### *Supplies and Equipment*

For costs associated with phones, office furniture, and computers, we have derived projected expenses on an annual per-employee basis. For phone expenses we have estimated annual costs of \$1,000 per FTE. For furniture, we have assumed an annualized cost of \$732 per year. This figure was arrived at, first, by estimating furniture costs of \$3,000 per employee, and second, by assuming that the useful life of this furniture would be five years. Given these figures, we annualized the costs by amortizing the \$3,000 over 5 years at a 7% interest rate. For computers, we estimated annual costs per full time employee of \$1,329. This figure assumes computer costs of \$4,500 per employee and an average useful life of computers of four years. (\$4,500 amortized over 4 years at a 7% interest rate.)<sup>3</sup>

On top of the projected costs of phones, furniture, and computers, we added an expense category for general supplies. We estimated costs of

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<sup>3</sup> It can sometimes be helpful to think of annualized costs in terms of a car loan. The annualized cost of a car would be the amount a person would have to pay each year if he or she borrowed the full price of the car from a bank, and then paid the money back over the entire useful life of the vehicle. This is not the way most people think about how much things cost, but when it comes to estimates of the ongoing costs of running something like a city, annualized costs provide the best snapshot of how much money the city will actually need in a given year.

supplies at 10% of the overall cost of full time salaries. In the first full year of incorporation, this percentage translates to approximately \$130,000.

### *Vehicles*

For many of the positions identified in our administration staffing, an integral part of their job will require at least the part-time use of a vehicle. We have projected that the city will want to lease five vehicles, at an annual cost of \$5,366 per vehicle. (This figure represents the value of \$22,000 amortized over 5 years at an interest rate of 7%.) For operation and maintenance of the vehicles, we have estimated annual expenses of \$5,000 each. The total costs of having a vehicle at the City's disposal is then slightly more than \$10,000.

### *Facilities*

Projections of the costs of City Administration facilities have been directly tied to our estimates of staffing levels. We have assumed that the City will need 250 square feet of office space for each full time employee it hires. We have also assumed an annual rental rate of \$17 per square foot, which is consistent with the going rate in the area. Given our staffing projections, we have therefore estimated facilities costs of \$97,750. Of course, if the members of the City Council saw fit, they could choose at some point to purchase land and construct a new City Hall. If they were to take this step, then the above funds could be viewed as the annualized costs of that development.

### *Summary of General Administration Expenses*

To insure that our estimates are conservative, we have assumed full staffing beginning in the first month of incorporation. This, of course, will not be the case. After a permanent City Manager is hired, it will take some time to fill specific positions. Since it is impossible to foresee how quickly staffing will be ramped up, however, we have chosen to err on the side of caution.

## **CITY ATTORNEY AND PROSECUTION SERVICES**

The City of Sammamish would likely contract with local firms for City Attorney services and prosecution services. To estimate these costs, we contacted a number of firms that currently provide these services to other Puget Sound area cities.

Through our conversations with these firms, we have forecast steady-state expenses of \$200,000 per year. The actual costs the City will bear will depend heavily on the level of services it requires. If the City wishes to have an attorney present at meetings every night of the week, then the costs of these services would be greater than if the attorney's services were only required a few days a week.

The law firms we spoke with indicated that the City will need to contract for City Attorney services at least four or five months prior to the official date of incorporation to help with the drawing up of the interlocal agreements needed upon start-up. These firms indicated, too, that the costs of these pre-incorporation services would run between \$4,000 and \$8,000 per month. After incorporation, as the City's needs ramp up, costs of city attorney and prosecution services combined are expected to range between \$15,000 and \$17,000 per month. Our forecast of \$200,000 per year falls in the high end of that range.

The actual costs the City will incur upon incorporation for the provision of any services will be determined through direct negotiations with the respective contractors. The agreed upon costs, therefore, will depend upon the specific set of services the City chooses to contract for.

## **PUBLIC SAFETY**

The single costliest line item listed in our forecast of expenses is that for Public Safety. The costs of providing this service represent approximately one third of the entire costs of running the City of Sammamish. Certainly, among residents of the Sammamish Plateau, there will be differing opinions on what would be the optimal level of public safety services provided. As with all other services, however, our goal here is not to recommend an optimal level of service, but rather to estimate the costs the proposed City could expect to incur were it to provide the same level of service that currently prevails on the plateau. From this baseline level, given the available funds, a City of Sammamish might choose to expand and extend its public safety services.

In our estimates of public safety expenses, we assumed that the City of Sammamish will contract with King County for all service areas. At some point in the future, the Sammamish City Council might weigh the benefits and costs of having the City provide its own Public Safety services, but presumably they would only do so if they believed that the move would *improve* the City's position. Therefore, our contract assumption remains a reasonable baseline from which to work.

## ***Police***

As a municipality, the proposed City of Sammamish would be required to provide for the protection of people and property within the City boundaries. Currently, as part of unincorporated King County, the Sammamish Plateau area receives its police services from the King County Police Department.

As part of the County's larger cooperative effort for this analysis, King County Sheriff's Office has provided us with a detailed estimate of what it would charge the City of Sammamish for the service it is currently providing in the area of proposed incorporation. While this estimate provides us with our baseline level of service for questions of fiscal feasibility, as the expected contract partner, the County would be willing to negotiate with Sammamish for the provision of a wide range of service options.

In its estimate of present service levels based on its use of flexible staffing, the Sheriff's Office has provided us with the following detailed breakdown of staffing levels and overall costs:

**Table 13: Estimate of Baseline Police Service Costs for City of Sammamish**

<b><i>Precinct/City Services</i></b>	<b>Cost</b>	<b>FTE</b>
Captain - Precinct Operations	22,345	0.18
Community Crime Prevention Unit	17,485	0.18
Community Policing Specialists	88,855	0.90
DARE	31,132	0.32
Precinct Facilities and Maint.	13,361	-
Costs of Storefront	35,724	-
Major - Precinct Commander	11,775	0.09
Precinct Crime Analysis	8,907	0.09
Precinct Detectives	65,754	0.57
Precinct Detective Sergeant	9,211	0.09
Precinct Pro-Active	11,813	0.10
Reactive Patrol (flex)	880,921	8.92
Administrative Sergeant	111,302	1.00
Reactive Patrol Sergeant (flex)	128,737	1.16
<b>Subtotal</b>	<b>1,437,322</b>	<b>13.60</b>

<b><i>Support Services</i></b>	<b>Cost</b>	<b>FTE</b>
Air Support	10,530	0.06
Bomb Disposal Unit	19,509	0.13
Canine	11,697	0.08
Communications - 911	144,974	1.72
Crimestoppers	2,362	0.02
Drug Enforcement Unit	25,401	0.21
DWI	3,580	0.03
Fraud, Forgery, Organized Crime	21,287	0.16
General Traffic	17,351	0.13
Major Crimes Detectives	52,050	0.39
Marine Patrol	24,713	-
MARR Unit	6,852	0.09
Motorcycle	28,553	0.22
Tactical Unit	16,137	0.09
<b>Subtotal</b>	<b>384,996</b>	<b>3.33</b>
<b>Total</b>	<b>1,822,318</b>	<b>16.93</b>

Taken together, these estimates sum to a total of \$1,437,322 for precinct/City services and \$384,996 for support services.

While the above figures were provided as a flat cost for current levels of service in the area of proposed incorporation, we have broken these costs down into an explicit per capita rate so we can forecast the increases we would expect over time as total population on the plateau rises. When we applied the County's estimate of costs to the 1997 population of the proposed incorporation area, we arrived at a per capita cost of \$65.62. (A low cost relative to other cities, consistent with the plateau's low levels of crime.) This per capita cost of police service is only an estimate. Any contract entered into with the County will of course need to be negotiated by the City, and will probably not be explicitly tied to changes in population. We believe, however, that it is important for readers to recognize that as the population of the City of Sammamish grows, there will probably be some concomitant increase in the costs of police services. For our analysis, therefore, we have assumed a direct relationship between growth in population and growth in costs.

As things currently stand, if the City chooses to contract with the County for police services, the County has indicated that the first two months of that service will be provided without charge. We have therefore assumed two months of police services expenses for the year 1999.

## ***Court Services***

Our projections of court services, like our estimates of public defense and adult detention to follow, are also derived from data provided to us by King County. Unlike police services, however, each of these three areas of expense, as provided, was already either explicitly or implicitly in per capita terms.

In cases where there are violations of local ordinances (things like traffic violations, parking infractions, etc.) a city has the option of either having the violations adjudicated in their own municipal court or in a district court through contract with the County. For purposes of this analysis, we have assumed that the City will contract with King County's District Court for the processing and adjudication of court cases.

Using the City of Woodinville as a starting point for comparison (as we did for accompanying fines and forfeits revenue estimates), King County's District Court has estimated average annual court service costs of approximately \$2.08 per person for the proposed City of Sammamish. In addition to these estimated contract costs, there will be some costs born directly by the City for things like interpreters, jurors, and witnesses. The County estimates that these costs may total fifteen percent of the contract costs. Based on these figures, we forecast total court costs for the City of Sammamish of \$2.39 per capita. Readers should bear in mind that these court costs should be more than balanced out by fines and forfeits revenues. Given our per capita estimate of \$2.39 for court costs and our \$4.87 per person estimate of fines and forfeits inflows, in general, increases in court activity should be a net financial gain for the City.

While we did include a lag time between the official date of incorporation and the first receipt of fines and forfeits revenue, we have not projected any lag in the assumption of court service expenses.

## ***Public Defense***

In the event that a person is cited for a crime in the City of Sammamish, and that person does not have the means to fund his or her own legal defense, the City is obligated to abide by the standards outlined in RCW 10.101 (which define indigent defense services) and provide that defense. King County's Office of Public Defense has generated an estimate of what the City might expect to pay, on average, for public defense services were it to contract with the County.

The estimates provided by the County for public defense costs in 1998 (based upon an assumed population of 26,200) anticipate 223 eligible cases in the City of Sammamish for the year at an average cost per case of \$280. On

top of these case costs, the County projects total overhead and financial eligibility screening costs of slightly more than \$7,000. Based upon these figures, the County estimates total 1998 public defense costs of roughly \$69,600. Implicit within this estimate is a per capita public defense cost to the City of Sammamish of \$2.66. We have applied this 1998 per capita estimate to our range of population estimates to determine public defense costs throughout the period of our analysis.

### ***Adult Detention***

As is the case for court services and public defense, the expenses incurred by the City of Sammamish for adult detention services will depend directly upon the level of use generated by criminal activity within the new City. Consistent with our assumptions for other public safety service areas, we have assumed that the new City will contract with King County for its adult detention services.

Based upon its calculations of countywide averages, the Department of Adult Detention has estimated per capita adult detention costs to the City of approximately \$9.36.

### ***Fire and Life Safety Protection***

Our assumption is that the proposed City of Sammamish would choose to annex itself to the currently existing King County Fire Protection Districts. (See Fire District Maps in the appendix to this document.) Since these three districts are funded through discrete levies, the provision of fire and life safety protection will have no direct financial impact on the City's budget.

## **ROAD MAINTENANCE AND OPERATION**

If voters within the proposed area of incorporation ultimately choose to incorporate, the new City of Sammamish will take over responsibility for the maintenance and improvement of public rights-of-way. For our analysis, we have assumed that the City will contract with the County for provision of these services. King County has provided a detailed breakdown of the anticipated costs of roads operation and maintenance, outlining expenses for everything from shoulder restoration to traffic signal maintenance. In the end, the County's total estimated cost of roads maintenance for the year 1998 is \$1,021,722, and their estimated 1998 traffic maintenance and operations cost is \$144,398. (Details of these costs are provided in the appendix to this study.)

To transform the above estimates into projections for our period of analysis, we have assumed a baseline inflation-adjusted growth rate of 5%. This growth rate is intended to capture increases stemming from three potential factors: 1) anticipated growth in road facilities due to capital investment, 2) increased pressure on facilities from population growth, and 3) potential increases in the cost of road maintenance services beyond the level of general inflation. Because we have assumed that part of the growth in costs will be dependent on the overall pace of development on the plateau, our low and high population growth scenarios are accompanied by inflation-adjusted roads growth rates of 3% and 6% respectively.

Upon incorporation, King County will supply the first two months of roads operation and maintenance services without charge. Therefore, the total expense forecast for 1999 includes only two months of road services.

For oversight of all public works activities within the new City, we have included a Public Works Director in our staffing of general administration. In general, King County encourages new cities to fill this position sooner rather than later to insure smooth coordination of public works operations.

## **PARKS AND RECREATION**

Currently, the public parks and parklands on the Sammamish Plateau are owned, maintained, and improved by King County Department of Parks and Recreation. According to County policy, upon incorporation, facilities defined as local parks by the Parks, Recreation, and Open Space Plan will be transferred, over time, to the newly incorporated city. King County expects that, under the above policy, three parks within the proposed City of Sammamish will be transferred to the City: 1) East Sammamish Park, 2) North East Sammamish Park, and 3) Pine Lake Park.

Our estimates of parks and recreation expenses are based on information provided to us by King County Department of Parks and Recreation. The County has been careful to note that these should be viewed only as estimates, and that, because a city faces different economies of scale, the costs actually incurred by the City of Sammamish will probably differ from the following projections. We have assumed that the City of Sammamish will not ultimately contract with King County for parks and recreation services, but rather, that they will take over the operation and maintenance of the three parks in question on their own. The following estimates of costs, then, are estimates of what the City will spend as it moves through the transition period to become the primary provider of parks and recreation services. King County indicates that newly incorporated cities in the county generally receive responsibility for local parks through a phased transition period. Under the schedule outlined by the County, if the City chooses to incorporate in August of 1999, then at no direct cost to the City, the County

will provide service through the remainder of 1999. For the first full year of the City's existence (2000), the County and the City will share maintenance costs on the following basis: County 2/3; City 1/3. In 2001, the City will be responsible for 2/3 of the costs and the County 1/3. By the year 2002, the City will bear full financial and administrative responsibility for the three local parks in question. During the transition period, the County will continue to own the three parks, and the County and the City will jointly maintain, operate, and use the parks. After the transition is complete, the ownership of the three parks will be conveyed to the City.

While the City of Sammamish will have time before it will bear full responsibility for the provision of parks and recreation services, in our staffing of the City administration we have anticipated that the City will hire a Parks Maintenance Supervisor and a Recreation Coordinator immediately upon incorporation. We anticipate that these individuals will initially serve as planners and coordinators, but that their early appointment will ultimately allow the City to prepare for the time when it will be the sole provider of parks and recreation services.

Based on its average costs from 1991 through 1995, King County Department of Parks and Recreation estimates that the cost of maintenance and operation of the three parks in question was roughly \$135,000 in 1995 dollars. Using the County's recommended 3% inflation factor to transform these costs into 1998 terms, we estimate that, in 1998 dollars, these average costs would equal slightly more than \$148,000. Included in these maintenance and operation expenses are costs of field supplies, field labor, utilities, general maintenance, and overhead. Excluded from the maintenance and operation expenses are costs for administration, planning, training, and machinery. For recreation, the County estimated 1997 net costs of almost \$21,000. (This net cost already takes into account revenues collected for things like tennis lessons and facility reservations.) When we translate this net recreation services cost into 1998 terms, (again using King County Parks recommended 3% inflation rate) we arrive at a 1998 estimate of recreation costs of roughly \$21,400. Taken together, our 1998 baseline for parks and recreation costs for the three parks in question equals roughly \$169,000.

In order to project the above figures through our period of analysis, we have assumed an inflation-adjusted growth rate that is tied to our estimates of population growth. This growth rate is designed to capture the costs of the increased use of park facilities stemming from increased population in the area. For our baseline population estimate, therefore, we have estimated inflation-adjusted growth in parks and recreation expenses of 5%; and for our Low and High scenarios, we estimate expense increases of 3% and 6% respectively.

Applying the transition schedule indicated above, we forecast no parks and recreation expenses for the City in 1999. In the year 2000, we anticipate

that the City's 1/3 share of expenses will equal roughly \$62,000, and in 2001, the City's 2/3 share will equal approximately \$131,000. In 2002, when the City takes over full responsibility, we anticipate expenses of \$206,000.

It is worth noting that, while the City of Sammamish will only acquire responsibility for a relatively few acres of local parks, residents of the plateau will have other significant facilities at their disposal. Within the area of incorporation, both the East Sammamish Regional Trail and Beaver Lake Park regional facilities will continue to be developed and maintained by the County. In the area surrounding the plateau, too, both Marymoor Park and the soon to be completed Section 36 will provide substantial park access to residents of Sammamish.

## **COMPREHENSIVE LAND USE AND CAPITAL FACILITIES PLAN**

According to the Washington State Growth Management Act, soon after the City of Sammamish incorporates, it will need to begin the process of developing a comprehensive land use plan and a capital facilities plan. The manner in which the City approaches this process, of course, will be a policy decision. In theory, the City could contract with consultants who would develop a package of plans consistent with requirements of the Growth Management Act for two or three hundred thousand dollars. In practice, however, the experience of other recently incorporated cities has been that, when all is said and done, these plans cost a great deal more. (Both Woodinville and Shoreline have spent close to \$1 million over three years on their comprehensive and capital facilities plans.)

Given the experiences of other cities, we have allocated \$750,000 over a period of four years for development of a comprehensive land use plan and a capital facilities plan. Of this total figure, \$300,000 has been projected to be spent in the year 2000 and \$400,000 in the year 2001. \$25,000 has been allocated for subsequent years.

## **HUMAN SERVICES**

Currently, the responsibility for the provision of human services in unincorporated King County falls on the County itself. If the Sammamish Plateau chooses to incorporate, however, this responsibility will shift to the City of Sammamish.

According to King County's Department of Community and Human Services, while human service expenditures by King County cities vary widely, (from a low of 0 to a high of \$25 per capita) the average city

expenditure countywide is in the \$10 per person range. While the amount the City will spend on human services will in large part be a policy decision for the City, for our analysis we have assumed expenditures at this \$10 per capita rate. For our projections, we assume that during the last four months of 1999, the City will not yet have taken over human services funding, but in the year 2000, expenditures will be at the full \$10 per capita level.

## **MISCELLANEOUS NON-DEPARTMENTAL**

### ***Insurance***

From conversations with the Washington State Insurance Authority, we have estimated annual insurance costs for the City of Sammamish of \$50,000. Insurance costs for a city are largely dependent on the number of people the particular city employs. Therefore, because Sammamish will be contracting for many of its services, we project insurance costs that are somewhat lower than costs born by other cities of comparable populations and size.

### ***Historical Preservation***

Working from its Historic Resources Inventory, King County has estimated historical preservation costs for the City of Sammamish of \$3,000 per year.

### ***Street Lighting***

Our estimates of street lighting expenses are based on expenditures reported by comparable cities. For purposes of comparison, the City of Woodinville reported street lighting expenditures in 1997 of approximately \$50,000.

### ***Association Dues***

As a Washington State City, the City of Sammamish will want to be a full participant in a variety of associations such as the Association of Washington Cities, the Association of Suburban Cities, and the Puget Sound Regional Council. Based on conversations with other cities, we have estimated annual association dues totaling \$18,000.

### ***Alcoholism/Drug Addiction Program***

In order to be eligible for receipt of state shared alcohol profits and alcohol excise tax distributions, cities are required to spend at least 2% of those distributions in support of an approved alcohol/drug addiction program. Our estimated expenditure of approximately \$6,000 per year for this category is consistent with this minimum statutory requirement.

### ***Property Services***

Currently, King County's Property Services Division (PSD) is responsible for the review and issuance of right of way construction permits for utilities in unincorporated King County. In addition, the Property Services Division is responsible for the issuance of overlegal permits for the movement of large vehicles and heavy equipment. The PSD has stated that they are willing to contract with the City of Sammamish to continue performing these services. Since the department is funded by fees collected through its permitting process, the only costs that would be born by Sammamish would be a one-time start-up fee of \$500.

**Table 14: Summary of Miscellaneous/Non-departmental Expenses**

#### ***Miscellaneous Expenses Forecast***

	1999	2000	2001	2002	2003
<b>Insurance</b>	17,000	50,000	50,000	50,000	50,000
<b>Historical Preservation</b>	1,000	3,000	3,000	3,000	3,000
<b>Street Lighting</b>	17,000	50,000	50,000	50,000	50,000
<b>Association Dues</b>	6,000	18,000	18,000	18,000	18,000
<b>Alcoholism/Drug Addiction Program</b>	2,000	5,000	5,000	6,000	6,000
<b>Property Services</b>	500	-	-	-	-
<b>Total</b>	42,000	126,000	126,000	126,000	126,000

### **OPERATIONAL CONTINGENCY**

No matter how thoroughly a city plans, there will always be unanticipated events requiring discretionary funds. To meet these unforeseen needs, we have anticipated an annual allocation of \$150,000, which the City administration would be free to spend at its discretion.

## RESERVE FUND

It is customary for a city to establish a financial reserve approximating 5% of its General Fund revenues. We have therefore included an expense to the General Fund of \$175,000 per year, starting in the year 2000.

## SURFACE WATER MANAGEMENT

As discussed in our examination of expected revenues, upon incorporation, the new City of Sammamish will take over the responsibility of surface water management within City boundaries. Because there are certain binding constraints on how SWM revenues can be spent, we have separated this fund from our General Fund throughout this analysis. As indicated previously, the three categories of legitimate SWM expenditures are: 1) day to day costs of surface water program services, 2) capital investment in SWM facilities, and 3) transfers to the General Fund for roads expenses directly related to surface water management.

### *Operating Costs*

Upon incorporation, officials of the City have the option of either choosing to provide surface water management directly or contracting with King County for the continued provision of SWM services. For our analysis, we have assumed that the City will choose to contract with the County for continued operation and maintenance of its SWM system.

According to estimates provided by the County's Department of Water and Land Resources, the day-to-day operation and maintenance of the surface water management system will cost the City approximately \$305,000. Over time, however, we believe it is likely that these day-to-day costs will be positively impacted by continued development on the plateau. We have therefore tied our assumed inflation-adjusted growth rate for surface water management operations to our population growth assumptions. For our baseline analysis, we have estimated inflation-adjusted growth in SWM operations of 4%. For our High and Low scenarios, this real growth rate has been adjusted to 6% and 2% respectively.

### *Watershed-based Services*

Beyond the above day-to-day costs, the County has identified a separate category of surface water management costs it refers to as watershed-based services. This category refers to operations that are currently ongoing in the area of the proposed City of Sammamish, but are not strictly limited to the

City's boundaries. Included in this list are things like the Lake Sammamish Water Quality Management Program, which affects not only the City of Sammamish, but other municipalities as well. In an attempt to remain faithful to our goal of estimating similar costs for similar levels of service, we have assumed that Sammamish would share in the funding of these watershed-based services. We have therefore asked that the County provide estimates of what the City's reasonable share of those services would be. In response to our request, King County's Department of Water and Land Resources estimated a total cost to the City of Sammamish for current watershed-based services of approximately \$164,000.

Unlike our treatment of SWM day-to-day operations and maintenance, we have assumed that watershed-based services will not grow at a rate greater than overall inflation.

### ***SWM Transfers to Roads***

One of the legitimate uses a city can make of funds dedicated to surface water management is the financing of roads maintenance and construction activities that are directly related to the management of surface water. (This includes things like maintenance of ditches, installation of drainage tiles, etc.) While this use of SWM funds is legitimate, it should not take precedence over either the day-to-day provision of SWM services, or capital investments. After these two needs have been fully addressed, however, a city can choose to transfer dollars from its SWM fund to a road fund to help defray the kinds of expenditures outlined above. Given indications from the County, we project that the City of Sammamish *will* have revenues available to fully fund identified SWM related roads expenses, and we have assumed that they will do so.

Given the detailed breakdown of roads operation and maintenance expenses provided us by King County, we estimate that, in the base year, approximately \$345,000 of total roads expenses would be defined as directly related to the management of surface water, and thus be eligible for transfer funding. We have assumed that the City will transfer this full amount. It is important to note that this assumed transfer is only an estimate. Ultimately, determining what projects can legitimately be financed from SWM funds is a legal issue. As such, it will be up to none other than the City administration and its legal counsel to determine where that line of demarcation falls.

In our baseline model, the identified Roads expenses are projected to grow at an inflation-adjusted rate of 5%; therefore, we are assuming growth in the SWM transfer to roads of an equal 5%.

Because surface water management finances are held separate from the General Fund, and because we have treated road revenues and expenses as

part of the General Fund, these transfers to roads appear in the statement of finances as a cost to SWM and a credit to the General Fund.

## **BUILDING PERMIT AND LAND USE OFFICE**

As we indicated in our analysis of projected building permit revenues, we have assumed that the City of Sammamish will have a self-funded building permit and land use office. Forecasts for the expenses of this department, along with forecasts of the revenues it will generate through its inspection and permitting activities, have therefore been assumed to have a zero net effect on the General Fund. There are two good reasons for approaching the revenues and costs associated with building permits in this way. 1) A self-funded building permit and land use office is consistent with King County's present policy, and therefore consistent with our "same cost/same level of service" baseline. 2) Assuming balancing permit costs and revenues is a useful way to isolate forecasts for the General Fund from uncertainty in this one area. Therefore, as we stated in our examination of revenues, both our projections for permit revenues and building permit and land use office expenses are roughly pegged at \$1 million per year.

How the City chooses to handle the transition for building permits is, of course, a policy decision. Policymakers should be aware, however, that there might be some financial incentive to take over control of the permitting process as soon as possible. Policymakers should be aware, too, that there is likely to be some degree of pent-up demand among residents for someone to talk to at the permit office. Officials at other recently incorporated cities, therefore, have advised that the City of Sammamish may want to recruit a highly experienced building permit official early on in the start-up process.

## 8. CAPITAL IMPROVEMENTS

Capital improvements are those investments a city makes in its physical infrastructure that allow that city to improve its overall position for the future. These improvements could include repair/construction of roads, acquisition and development of parklands, or development of structures to enhance surface water management. For a city like Sammamish, these physical investments are every bit as important, if not as pressing, as the day to day operations of the City. Because the returns to capital improvements are generally received over a long period, and because the costs of these improvements are substantial, it is important that a city plan these investments carefully. In fact, as a municipality constrained by the statutes of the Growth Management Act, the City of Sammamish is required to develop a six-year capital improvement plan (CIP) that conforms to the policies outlined in its comprehensive plan.

While there is no way of knowing *a priori* what the City's comprehensive plan will look like, planners at the County have developed a comprehensive capital improvement plan for all of unincorporated King County, including the Sammamish Plateau. Consistent with our "same cost/same level of service" approach, we have used this plan as our baseline for capital needs on the plateau.

### ***SURFACE WATER MANAGEMENT***

According to data provided to us by King County's Department of Water and Land Resources, by the end of 1998, more than \$6.2 million will have been invested over the past ten years in surface water management capital facilities within the area of proposed incorporation. (A detailed breakdown of these investments is provided in the appendix to this document.) At present, the Water and Land Resources Division has no projects planned for construction past 1998 aside from those identified in the appendix. Other identified projects have not been prioritized for construction. After incorporation, the City of Sammamish will need to begin a process of identifying and prioritizing surface water needs on its own.

Since the County expects to have completed all first tier SWM projects by the date of incorporation; we have not forecast any specific capital expenses for surface water management. Of course, as our breakdown of SWM revenues and expenses shows, the City *will* have dollars available for capital expenditures. It will be up to the City's administration, however, to determine how those funds will best be spent.

## ***ROADS CAPITAL IMPROVEMENT PLAN***

The following projected capital expenditures for roads have been broken down into three categories:

- Expenditures for identified road construction projects.
- Expenditures for the repair of road damage brought about by winter storms
- Expenditures for road resurfacing/overlay

Taken together, these three expense categories make up our total anticipated roads capital improvement expenses for the City of Sammamish. To avoid confusion, we should point out that what King County terms Sammamish capital projects in their CIP, in fact, only corresponds to one of our three categories: that of expenditures for road construction.

### **ROADS CONSTRUCTION**

According to King County Roads Services Division, in the five years from 1993 through 1997, the County has spent slightly more than \$10.2 million on roads design and construction Capital Improvement Program (CIP) projects within the proposed City of Sammamish. According to the County's CIP, for the period 1998 through 2003, they plan to spend an additional \$25.6 million (in 1998 dollars).

If a city incorporates in the middle of a given year, the County's policy is to complete road construction, design or other improvement projects programmed for that year, by either actually finishing the project or providing funds to the city for transportation purposes. Therefore, based on an incorporation date of August 31, 1999, the County would finance construction and design projects through all of 1998 and 1999. Of the above \$25.6 million of projects, then, the amount remaining for the final four years of the County's CIP would be approximately \$18.97 million, which averages out to \$4.74 million per year. We therefore estimate this \$4.74 million annual expense for the construction portion of our anticipated capital improvement costs.

### **COUNTYWIDE PROJECTS**

In addition to expenditures for CIP projects, Roads Services Division reports that from 1995 through 1997, they spent roughly \$750,000 on smaller

projects financed through a “countywide” fund. These countywide funds are made available for financing projects such as paths and drainage improvements throughout the county on an as-needed basis. On the plateau, Roads Services reported spending roughly \$47,000 in 1995 (mostly on pathways and drainage), in 1996 they spent \$126,000 (with most going to traffic signals), and in 1997 they spent \$582,000 (with most, again, going to traffic signals). While the expenditures listed above vary widely from year to year, if the less regular expenditures on traffic signals are taken out, basic countywide expenditures for things like paths and drainage are much more consistent. Over the three years for which we have data, these basic expenditures totaled \$38,000, \$49,000, and \$58,000. Expenditures on traffic signals varied much more widely, ranging from \$0 to \$88,000 to \$524,000 in 1997.

For our prediction of expenses the City will face for small projects, we have assumed \$50,000 per year for basic projects like constructions of paths and improved drainage. We assume expenses of \$150,000 per year for traffic signals. In total, then, we project expenditures on countywide types of projects of \$200,000 per year.

## **REPAIR OF WINTER STORM DAMAGE**

According to information provided by King County Roads Services Division, during the winter of 1996-1997, Roads Services incurred costs of slightly more than \$160,000 for repair of winter storm damage. The County has indicated that, like the countywide expenses discussed above, the extent of road repairs made necessary by winter storm damage varies widely from year to year. The winter of 1996-1997 brought with it some unusually damaging storms, which we would not expect to be repeated every year. It is important to recognize, however, that when such storms do occur, they can cause significant damage. Further, as Sammamish continues to develop, the potential for costly damage from these storms will increase. In the end, we have chosen to view this 1996-1997 winter storm cost as a conservative indicator of future average costs. For our analysis, therefore, we project annual winter storm repair costs of \$160,000.

## **ROAD RESURFACING/OVERLAY**

Beyond the construction of new roads and the repair of winter storm damage, the City of Sammamish will need to provide for periodic resurfacing of its existing roads. King County currently plans to resurface/overlay slightly less than 16 miles of two-lane roads over the next three years at an average cost of \$82,000 per mile. The County does not provide this service itself, but rather, contracts with two private vendors for countywide overlay

services. King County has indicated that, upon incorporation, the City could enter into a contract with Roads Services Division to be included in the County's annual resurfacing contract.

From the overlay rate cited above, we have estimated annual resurfacing/overlay expenses for the City of Sammamish of approximately \$435,000.

## **TOTAL CAPITAL IMPROVEMENT EXPENSES FOR ROADS**

Combining anticipated expenses for the above three categories, we estimate total annual capital improvements for roads of approximately \$5.54 million. Of this total amount, we anticipate that a portion could be funded through implementation of an impact fee program coordinated with the County's Mitigation Payment System. When we apply our estimated annual impact fee revenues of \$387,000 (as discussed among our examination of revenues) to this total amount, the annual capital improvement costs to be funded through other sources falls to roughly \$5.15 million. We anticipate that this will be partially funded by revenues dedicated to transportation needs like the restricted gas tax or through revenues dedicated to capital investments like the real estate excise tax. Depending on how the City chooses to approach its capital improvements, however, it is likely that a portion of roads capital expenditures will need to be funded out of the City's general revenues.

We should note that the County has applied for a grant of \$1.5 million from the State which, if received, would be applied to the single largest construction project in the County's current CIP: the planned widening of 228<sup>th</sup> Ave. SE/NE. After speaking with Road Services Division, however, we have assumed that it would not be granted. (According to the County, this particular project is competing with perhaps one hundred others on a statewide basis for grant dollars, and should not be counted on for real revenue.) If the 1999 project costs were eligible under the grant, the grant funds would go toward offsetting the costs for the particular project and the remainder would go to the City specifically for this project.

## **PARKS CAPITAL IMPROVEMENT**

In recent years King County has invested more than \$5 million in regional and local parks on the Sammamish Plateau. In addition to these investments, the County's current development of Section 36 just outside the proposed boundary of the City can be viewed as an investment that should provide substantial benefits to residents of the Sammamish Plateau. Given

these past and current investments, and given our understanding that the County has no immediate plans to invest further in the local parks within the City, our baseline assumption is that the City will not make further investments in its local parks within the period of our analysis. This is not to say that the City could not choose to make further investments in parks if it so desired. As with all other categories of expense, the City is free to make a wide range of policy decisions, and choosing to invest in its parks is certainly one of the available options.

### ***TOTAL CAPITAL IMPROVEMENT EXPENSES***

Since we project no specific capital investments for either surface water management or parks, our anticipated total expense for capital improvement is essentially equal to our anticipated capital expense for roads. We therefore project baseline capital improvement expenditures of approximately \$5.15 million per year for the City of Sammamish over the four years from 2000 through 2003.

## 9. ADDITIONAL SERVICES

Up to this point in our analysis, we have examined only forecasts of expenses directly related to providing levels of services as they currently exist on the plateau. Looking at our projections of anticipated revenues minus core costs, however, we forecast that there *should* be extra revenues available to fund services at the discretion of policymakers. In our baseline analysis, we project that year 2003 General Fund revenues will exceed core expenses by more than \$7.3 million. Therefore, even after we subtract \$5.15 million for capital expenditures on roads, we anticipate that \$2 million will be available for allocation as City policymakers see fit. Among the likely uses the City would have for these projected discretionary funds are things like:

- Additional capital expenditures on roads, parks, or surface water management
- Additional police services
- More extensive staffing of City administration
- Increased human services expenditures
- Additional parks and recreation services

Since we have provided an estimate of a range of discretionary funds that might be available, it would be reasonable for voters to wonder exactly how much these revenues might buy. While it is impossible to discretely price most of the options listed above, we have generated a list of the costs of a few options for reference purposes.

### *Additional Police Services*

According to data provided by the King County Sheriff's Office, the area of the proposed City of Sammamish is currently allocated approximately ten reactive patrol officers. (That is, the County has allocated nine FTE reactive patrol one FTE reactive patrol sergeant, and one dedicated administrative sergeant.) Based on the cost distributions we received, if the City of Sammamish wanted to add two more full time reactive patrol officers, it would cost the City slightly less than \$200,000 per year.

### *Additional Capital Expenditures for Roads*

According to figures supplied by King County Division of Road Services, if the City of Sammamish wanted to increase their present rate of road resurfacing from 5 miles per year to 7 miles per year, it would cost the City an additional \$164,000

*Additional Staffing*

Whether an additional full time employee is hired to improve human services or to increase service levels at city hall, a good rule of thumb is that for each additional employee with a nominal salary of \$40,000, the total cost the City will have to bear will be approximately \$65,000 per year. Therefore, if policymakers choose to add 5 additional FTE to the City staff, the total costs of that addition will be roughly \$325,000.

## 10. PROJECTED START-UP FINANCING

As part of the start-up process, the interim staff at the new City of Sammamish will have to contact a local lending institution to set up a line of credit to tide the City over until substantial revenues begin to flow in. In part, the rate at which these revenues begin to flow will depend on how rapidly the City is able to move in implementing some of the projected fees (like the cable TV franchise fee). Flows of revenues will depend, too, on how smoothly the transition is handled. Policymakers at the City should make sure that they contact the Municipal Research and Services Center as early on in the process as possible. Policymakers should also be sure to get a copy of the MRSC's "The New City Guide," and "A Revenue Guide for Washington's Cities and Towns."

To be clear, at no time should the City of Sammamish expect to receive its revenues as an even, monthly flow of funds. City revenues are lumpy by nature, and the start-up phase for a newly incorporated city is no exception. Given the probable start-up costs, and given the expected ramping up of operating expenses in the first months of incorporation, Sammamish should count on accumulating debt until it receives a large payment of road levy revenues from King County around the 19<sup>th</sup> of November. It is important that the City contact King County Finance well ahead of time so that the details of the fund transfer can be worked out.

The exact amount of debt the City will incur depends on how the City approaches its start-up. The governing factors include things such as how quickly staffing is ramped-up, and whether computers and vehicles are bought outright or leased. To be conservative in our estimation of start-up cash flows, we have assumed administration overhead expenses of 244,000 in the months prior to incorporation. We have anticipated that the interim staff will purchase a large number of computer systems and a variety of supplies. Regarding vehicles, however, we have assumed that the City will lease its vehicles rather than buy them. If this turns out not to be the case, then the above figures should be adjusted accordingly.

Again, to be conservative in our estimates, we have allocated funds to compensate full staffing levels beginning with the first month of incorporation. In addition, we have allocated \$150,000 in the pre-incorporation phase for interim staffing. Given these assumptions, over the pre-incorporation period and into the first three months of the City's life we anticipate that Sammamish may need to tap its credit line for as much as \$800,000.

In the month of November, the City will receive an estimated \$1.9 million dollars from King County as a portion of the road levy. By statute, these revenues must ultimately be dedicated to roads maintenance and

construction, but the City *is* allowed to borrow against this fund as long as the loan is paid back, with interest, within three years. We anticipate, therefore, that the City will use the road funds received from King County to repay its short-term debt and to help finance continued operations through the remainder of 1999. Given our steady-state projections of revenues and expenses, we expect that Sammamish will have no difficulty repaying this loan within the required three years.

On the following page, we provide a general overview of the monthly revenues and expenses the City can expect. While the precise flows of revenues and costs will largely depend on the specific choices and actions of the City administration, the following chart should give readers a general sense of the lumpiness of City receipts. We have estimated monthly expenses by simply dividing yearly expense forecasts into twelve equal monthly payments. For many of the larger expenses (for things like road maintenance and public safety contract payments) this assumption of equal monthly payments really does reflect the way outflows will occur. For other expenses (like parks and recreation costs) however, expenses arising from one month to the next are not so easily predicted. For these smaller outflows, then, our monthly estimates should be viewed only as a general indicator of the kinds of expenses the City will face. As readers will see from the projections, we anticipate that upon receipt of the road levy funds in November, the City will move to a positive overall cash position. Contingent on the policy decisions of the administration, we expect the City's position to remain positive into the future.

**Cash Flows for First Year (Not Including SWM Revenues or Costs)**      Figures in \$1,000s

<b>Outflows</b> <i>(In Thousands)</i>	<b>1999</b>					<b>Jan.</b>	<b>Feb.</b>
	<b>Pre-Incorp.</b>	<b>Sept.</b>	<b>Oct.</b>	<b>Nov.</b>	<b>Dec.</b>		
Public Safety	-	-	-	202	202	206	206
Public Works	-	-	-	102	102	107	107
Salaries and Benefits	-	143	143	143	143	167	167
Administration Overhead	250	125	12	12	12	28	28
Interim Staffing	150	-	-	-	-	-	-
Vehicle Lease and Operation	-	4	4	4	4	4	4
Attorney Services	25	8	8	8	8	17	17
Parks and Recreation	-	-	-	-	-	5	5
Comprehensive Plan Development	-	-	-	-	-	17	17
Capital Facilities Plan Development	-	-	-	-	-	8	8
Human Services	-	-	-	-	-	26	26
Other Miscellaneous	-	11	11	11	11	10	10
Operational Contingency Fund	-	-	-	-	-	13	13
Reserve Fund	-	-	-	-	-	15	15
<b>Total</b>	<b>425</b>	<b>290</b>	<b>178</b>	<b>482</b>	<b>482</b>	<b>623</b>	<b>623</b>

<b>Inflows</b> <i>(In Thousands)</i>	<b>1999</b>					<b>Jan.</b>	<b>Feb.</b>
	<b>Pre-Incorp.</b>	<b>Sept.</b>	<b>Oct.</b>	<b>Nov.</b>	<b>Dec.</b>		
Road Tax	-	-	-	1,943	-	-	-
City Property Tax	-	-	-	-	-	-	-
Retail Sales Tax	-	-	-	-	85	85	85
Sales Tax Equalization	-	-	-	-	-	523	-
Sales Tax - Criminal Justice	-	-	-	124	41	43	43
State Shared Revenues	-	-	190	-	38	285	-
State Shared (by Application)	-	-	-	-	-	32	-
King County Vehicle License Fee	-	-	50	-	-	78	-
REET	-	-	135	135	135	135	142
Fines and Forfeits	-	-	-	12	12	13	13
Utility and Cable TV	-	-	17	17	17	59	59
<b>Total</b>	<b>-</b>	<b>-</b>	<b>392</b>	<b>2,230</b>	<b>328</b>	<b>1,253</b>	<b>342</b>

<i>(In Thousands)</i>	<b>1999</b>					<b>Jan.</b>	<b>Feb.</b>
	<b>Pre-Incorp.</b>	<b>Sept.</b>	<b>Oct.</b>	<b>Nov.</b>	<b>Dec.</b>		
<b>Cash Inflows - Outflows</b>	<b>(425)</b>	<b>(290)</b>	<b>214</b>	<b>1,748</b>	<b>(154)</b>	<b>630</b>	<b>(281)</b>
<b>Accumulated Cash Position</b>	<b>(425)</b>	<b>(715)</b>	<b>(501)</b>	<b>1,247</b>	<b>1,093</b>	<b>1,723</b>	<b>1,442</b>

## **11. APPENDIX A**

### ***REVENUE DETAILS***

### ***EXPENSE DETAILS***

## **12. APPENDIX B**

### ***MAPS***

*Fire Districts and Stations*

*Water and Sewer Districts*

*School Districts and School Sites*

## **13. APPENDIX C**

### ***SUPPORTING DOCUMENTS***

*Roads Services Department Maintenance and Operation  
Expense Estimates*

*King County Sheriff's Office Estimates of Police Services  
Expenses*

*King County Roads CIP Data*

*MPS Zones and Projects*

*Surface Water Management Capital Projects*